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# Subprime Disaster Capitalism in New Haven

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Subprime Disaster Capitalism in New Haven

American Studies Senior Thesis

Jacob Miller

4/25/2014

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## Background and Acknowledgements

This thesis is not just the culmination of a year of writing and research. I arrived at this topic through the inspired instruction and consistent support of Trinity's American Studies faculty. Grounded in the historical and contextual foundation provided by courses like Professor Baldwin's "Race and Urban Space" and Professor Tang's "Urban Mosaic," I learned to critically analyze the forces and conditions that shape New Haven—the City where my family has lived for over 35 years. The Trinity faculty helped me carve out an academic niche that leaves a lasting imprint on how I understand the world.

My work began upon approval of my thesis at the end of my junior year. From that point forward, I worked to advance my understanding of the current composition and historical legacy of New Haven's urban landscape. I effectively lived my research, beginning before its conception with a year working as a security guard for Mandy Management LLC, a property management company that has shaped New Haven's modern urban state. After returning to Trinity, I began to formulate questions and initial theories about the City of my birth.

In the summer after my junior year, I was given the opportunity to work as an intern at Neighborhood Housing Services in New Haven. During my time there, I absorbed everything I could from the knowledgeable staff. In particular, Steven Cremin-Endes generously shared his wisdom, analytic perspective, and knowledge of New Haven. During the same summer, I began an internship at the Meriden-based mortgage servicing company The National Groups (TNG). Through this experience, I hoped to round out my perspective through an inside look at the business of housing finance and foreclosure/default servicing. As the school year began, I continued working at TNG and



sought to learn as much as I could about the financing side of the housing market. My experience at TNG paved the way for another invaluable workplace learning opportunity: my current position as a Pre-Funding Reviewer and Post-Closing Specialist at Total Mortgage Services, a leading housing lender in Milford.

Utilizing all that I learned during my academic work and professional experiences, I hope to pursue graduate education in urban development and become an expert in the field of housing finance. While this thesis has been a challenge, it has also been an invaluable learning opportunity. In particular, it has been an honor and a privilege to work with Professor Baldwin and I extend particular thanks for his wise guidance throughout the process. I would also like to thank my family for their support and the contribution of their personal experiences. Finally, I must extend my sincere gratitude to my sister Sarah for her invaluable help with the editing process.

## Introduction

As you walk down the sidewalk of Harding Place, it is difficult to picture a street occupied by families or a community ripe with opportunity, great manufacturing jobs and social cohesion. The fleeting memory of the once vibrant neighborhood of Newhallville in New Haven, Connecticut, has been replaced by trash, overgrown lawns, boarded up windows, vandalism and pervasive vacancy. The properties that still house residents are indistinguishable from the rapidly deteriorated foreclosures and contain renters with very limited finances or housing options. Many multi-family rental units are full of insect and rodent infestations, rampant mold, and lack basic necessities like functioning air conditioning, heating, plumbing or ventilation. For many outside observers, there is an inherent link between this type of urban setting and the residents that occupy it. The crime, drug culture and other social deviancy are seen as a reflection of the local value system. Therefore, the resulting housing conditions and infrastructure are seemingly organic and predetermined.

While the residents of communities throughout New Haven perceive the conditions of areas like Newhallville as deplorable, there is an underlying disconnect rooted in the perceived link between the physical condition of a neighborhood like Newhallville and the role that residents play in the violent crime and drug economy within its borders. Outside observation operates under the assumption that these deviant criminal byproducts are an internal construct rather than the byproduct of a larger systemic framework. In a majority of these communities, there is an invisible force that rarely enters the mainstream public discourse. The role of development and property management companies has shaped conditions and suppressed wealth generation,

limiting tangible social mobility through dominant influence in the low-income neighborhoods of New Haven. In the wake of the national subprime mortgage crisis and the resulting devastation of housing markets, local property management companies recognized an opportunity for increased revenue through the monopolization of rental housing in specific underserved neighborhoods. This market dominance allowed for the dictation of future expectations and conditions for low-income and section-8 residents. Rather than acting as a catalyst for growth, they strategically acquired properties for fractions of the original value, foregoing capitol improvement while using section-8 rental dollars for further acquisitions. This market domination led to rapid neighborhood deterioration and exacerbated poverty by limiting service access.

This thesis seeks to employ this trajectory to critically analyze the urban condition. I will utilize Naomi Klein's notion of disaster capitalism to explore how development and management corporations in New Haven capitalized on the subprime crisis to further exploit already marginalized communities through vast land grabs and limited real estate maintenance. New Haven's current urban composition is the result of a legacy of disproportionate municipal support and selective appropriation of socio-cultural value in the city's low-income neighborhoods. In order to avoid addressing the systemic inequalities created by the City's urban history, these disenfranchised communities have gradually grown socially, economically and spatially isolated. This trajectory created a housing landscape that was highly vulnerable to the devastating economic effects of the national subprime mortgage crisis. In New Haven's low-income neighborhoods, the societal status assigned to the population, coupled with the magnified effects of the post-

crisis marketplace led to widespread and reactionary disaster capitalism.<sup>1</sup> Disaster Capitalism is the practice of utilizing a major disaster to shape economic practices and policies that the population would not accept under normal circumstances.<sup>2</sup> Subprime lending is the widespread practice of originating mortgage loans to unqualified or low-income borrowers for future sale on the secondary market. This practice was at the core of the housing market's collapse, as the long-term viability of these loans was not relevant for the organizations and brokers by whom they were originated.<sup>3</sup> In the local fallout of this national crisis, companies and institutions exploited the post-subprime marketplace by utilizing disaster capitalism to profit off disenfranchised populations and influence development projects to serve internal goals. The effectively neutral stance taken by City government toward the exploitation of these communities has allowed for these companies and institutions to shape the City and reap monetary benefits on a massive scale.

My research for this project involved both conventional literary review and real world experience. I utilized a variety of scholarly sources including historical studies, local and national news articles, journals and papers, municipal publications, local public records, federal historic neighborhood registries, and housing symposium speeches, among others. My reading was supplemented through on-the-ground experience during an internship at the New Haven non-profit organization Neighborhood Housing Services, which specializes in neighborhood revitalization through financial education and

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<sup>1</sup> Disaster Capitalism is a term originally used by author Naomi Klein. Klein, Naomi. The Shock Doctrine. Metropolitan Books. Henry Holt and Company. 2008

<sup>2</sup> "Disaster Capitalism." *Dictionary.com*. Dictionary.com LLC.  
<<http://dictionary.reference.com/browse/disaster%2Bcapitalism>>.

<sup>3</sup> Muolo, Paul and Padilla, Matthew. Chain of Blame: How Wall Street Caused the Mortgage and Credit Crisis. Hoboken, NJ, Wiley. 2010. Page 11

homeownership strategies. I rounded out this localized experience with an internship in the business realm at The National Groups, a mortgage serving company that specializes in default servicing. Through my work at The National Groups, I gained an insider's perspective on the fallout and market conditions of a post-mortgage crisis marketplace. Grounded in both real world experience and the relevant literature, I structured a research-based narrative rooted in the fusion and effect of market forces, institutions and private entities on a local housing marketplace.

In section one of this thesis, I examine the historical legacy of New Haven's urban makeup. The modern history of the City is rooted in nationwide theories of blight prevention and slum clearance associated with the Urban Renewal Program. I also examine how nationwide trends such as white flight exacerbated the neighborhood disparities forged by Urban Renewal. Section two explains the subprime mortgage crisis, both conceptually and practically. This sections also links the conditions created by Urban Renewal to the implications of the housing crisis on national and local markets. Utilizing key players from the financial institutions at the heart of the housing crisis, this section parallels the general model of subprime predatory lending with the localized low-income rental market in New Haven. In section three, I examine two modern case studies. The first focuses on two bordering streets in New Haven's Newhallville neighborhood, which showcase opposite strategies employed by two fundamentally different organizations with significant influence in this area. The differing ideologies associated with this comparison show the divergent navigation of the post-foreclosure landscape created by the housing crisis. The second case study involves the municipal government's partnership with Yale University. This modern urban development initiative involves the

demolition and potential expansion and demographic reassignment of an underserved section-8 housing complex on the outskirts of downtown New Haven.

The direction of New Haven's housing marketplace has been shaped by the legacy of subprime lending. The resulting economic environment has been manipulated through disaster capitalist tactics, further compounding conditions and weakening communities. The role of this dynamic has a direct and palpable influence on the social mobility and societal significance of these populations. While the city is content rationalizing the existence of disenfranchised communities as part of an inherent cultural hierarchy, this thesis seeks to deconstruct the elements and influences that have produced New Haven's prevailing urban landscape.

## 1. New Haven: America's Urban Testing Ground

Founded in 1637 by English Puritan settlers under the leadership of Reverend John Davenport and Theophilus Eaton, New Haven is now the second largest city in the state of Connecticut.<sup>4</sup> The area was originally home to the Quinnipiack, a small Native American tribe that sold their parcel of land to the Puritans, relocating northeast of the harbor to an area that is now part of the town Hamden and home to Quinnipiac University. While hoping to create a Christian utopia, the Puritan settlers also saw potential in the commercial opportunity presented by New Haven's spacious harbor.<sup>5</sup> This geographic asset has provided the City with a competitive foundation, attracting investment, facilitating trade, and allowing for access to resources since its inception. As one of Connecticut's three deep sea ports, New Haven has grown around this commercial focal point, attracting individuals, business and institutions over its nearly 400 year history.

Incubated by years of trade and investment, the City center has been steadily shaped into a metropolitan area. By 2012, the population of New Haven reached 130,741, with one hundred percent of the spatial area categorized as urban. Census data from 2010 suggests that the racial makeup of New Haven County is 31.4% White, 31.2% Hispanic, 28.8% Black, 5% Asian, 1.8% multi-racial, and 1.6% other. In 2011, the median household income in New Haven was \$33,526, compared with \$65,753 in the state of Connecticut. Furthermore, the median house or condominium value in New Haven was \$214,500 compared with \$278,700 in the rest of the state, while the median gross rent

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<sup>4</sup> City of New Haven, Official Website. "History of New Haven."  
[http://www.cityofnewhaven.com/Mayor/History\\_New\\_Haven.asp](http://www.cityofnewhaven.com/Mayor/History_New_Haven.asp)

<sup>5</sup> Ibid.

was \$1,036. In July 2013, the unemployment rate in New Haven stood at 12.4%, compared with 8.4% for the rest of the state.<sup>6</sup> Between 1999-2011, New Haven's score on City Data's crime rate index was consistently at least double that of the national average of 319.1, ranging from 845.8 in 1999 to 750.5 in 2011.<sup>7</sup> These statistics paint the picture of a distressed and dilapidated urban environment, ravaged by crime and home to a crippled housing stock and market. When we compare this statistical deduction to the publically showcased mosaic of gothic facades and modern glass and steel that make up the City's urban core, the contradiction, contrast and fragmented composition of New Haven begin to solidify.

In order to truly understand how New Haven has evolved into its modern state, we must first recognize that contrast is at the core of the City's identity. However, understanding *how* the spatial spectrum became so expansive is paramount. The goal of this thesis is to critically analyze the historical trajectory, municipal policies, institutions and companies that have generated, exacerbated and benefited from the disparity and makeup of New Haven's modern urban condition. Taking this localized context and situating it within the policies and trends of our national economic marketplace, we can begin to understand how the amalgam of these forces led to current local implications. New Haven's current urban composition is shaped by reactionary disaster capitalism that has evolved to fill a low-income housing demand created by a legacy of neighborhood exclusion and selective investment.<sup>8</sup> Seeking to fill this vacuum, private interests have utilized the catastrophic effects and resulting fallout of the subprime mortgage crisis to

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<sup>6</sup> New Haven, Connecticut, City Data. Advameg, Inc. 2003-2014 <http://www.city-data.com/city/New-Haven-Connecticut.html>

<sup>7</sup> See Figure 1.1.

<sup>8</sup> Klein, Naomi. The Shock Doctrine. Metropolitan Books. Henry Holt and Company. 2008



monopolize low-income housing in New Haven. This work will also attempt to utilize the success of local alternative housing models and organizations as a framework for scalable strategies to effect localized change and reverse the current market trend of exploitative low-income rental domination.

The structure of New Haven cannot be fully understood through the decisions of urban planners and legislative policy. It is indisputable that these elements, coupled with market forces, have played a large role in shaping the current urban landscape; however, in order to understand the local forces that hold significant influence in the City of New Haven, we must begin with the most historic, and arguably most significant institution in the City. Yale University was founded in 1701, making it the third-oldest association of higher education in the United States.<sup>9</sup> Yale boasts an endowment valued at over 20 billion dollars and a reputation as one of the most elite educational institutions in the world. Yale's presence and influence has profoundly impacted the visions and decisions of New Haven's leaders, past and present. Today, Yale University's expansive campus dictates the spatial make-up of New Haven's urban core and serves an integral economic role as the city's largest taxpayer, employer and landowner.<sup>10</sup> While the makeup of downtown is dictated by Yale's presence and effectively caters to Yale's commercial and demographic needs, this urban core is surrounded by a series of smaller neighborhoods with their own unique racial, spatial and economic breakdowns. Spanning from the upscale suburban landscapes of East Rock and Westville to the dense pockets of low-income developments and aged housing stock found in neighborhoods like The Hill, Dixwell and Newhallville, New Haven's neighborhood organization is diverse.

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<sup>9</sup> Yale University Official Website. History. <http://www.yale.edu/about/history.html>

<sup>10</sup> New Haven: Economy. City Data. Advameg, Inc. 2003-2014 <http://www.city-data.com/us-cities/The-Northeast/New-Haven-Economy.html>

Due to the presence of Yale University, segments of New Haven's population represent the upper end of the social spectrum. Since very early in New Haven's history, Yale's faculty has been comprised of industry leaders and innovators in the fields of science, politics, art, literature and economics. These members of the City created upscale neighborhoods, resulting in the microcosmic suburban sections of neighborhoods like Westville and East Rock. Canopied by tree-lined streets, and made up of large plots of land, home to extraordinary and often lavish Tudor mansions, these neighborhoods house the cities elite and re-enforce New Haven's official descriptor: the Elm City.<sup>11</sup> The dorms, libraries and academic buildings that comprise Yale's campus dominate New Haven's downtown. These structures often act as physical barriers and dictating walkability and access for the general population. Large segments of downtown are only accessible through gates that require a Yale identification card, creating an atmosphere of exclusivity. The school's grand physical structures, when contextualized spatially with the deteriorating commercial and residential space found in some of the bordering neighborhoods, are a stark reminder of the City's socio-economic spectrum.

Over the past fifteen years, New Haven's downtown has undergone a significant shift. For many perspective students applying to the college in the 1980's and 90's, Yale's biggest drawback would have been its location. Due to the recent reversal of longstanding historic trends of decentralization in America's urban centers, New Haven's *new* downtown is often a selling point for prospective students. Increasingly, the shopping and culinary culture of this area boasts high-end options, drawing most of its business from Yale students, faculty, and their families. A small sample of retail choices

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<sup>11</sup> "New Haven." *Knowledge Center*. CT Data Haven, 30 Dec. 2013. Web. <[http://ctdatahaven.org/known/index.php/New\\_Haven](http://ctdatahaven.org/known/index.php/New_Haven)>.

include The Apple Store, Urban Outfitters, and American Apparel, while restaurants like The Union League and Zinc offer fine dining at lavish prices. These upscale consumer options, coupled with a plethora of other fine dining and upscale bars, also draw in affluent residents from local suburban communities yearning for the urban experience or a night out on “the town.”

While this commercial and municipal revitalization can be perceived as a positive permeation of the social culture demanded by Yale’s population, the rise and fall of New Haven’s downtown is inexplicably linked to the actions of the same demographic to which it now caters. Earlier in the 20<sup>th</sup> century, New Haven’s urban core was critically altered by a national phenomenon known as white flight. New Haven’s population dropped from 162,537 in 1940 to 126,109 in 1980, a decrease of 23%. At the same time, New Haven’s suburban population increased by over 231%.”<sup>12</sup> Due to the increasing prevalence of white-collar jobs, decentralization, and new highway construction funded by the federal government’s urban renewal programs, populations across the country left the urban setting in large numbers. As a result, suburbia became the new American gold standard. People no longer wanted to live where they worked and the prospect of homeownership, more space and the freedom that an automobile provided, created a perfect storm for a widespread change in spatial norms.

As the white population left the City, the urban populace became increasingly black and brown. Between 1920 and 1990, the black population of New Haven increased dramatically from 4,573 to 47,157, while the black percentage of the population went from under 3% to over 36%. In the 1930s census, the Hispanic population was reported

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<sup>12</sup> Solomon, Robert. Building a Segregated City: How We all Worked Together. Saint Louis University Public Law Review. 1997, page 3.

as one person of Mexican origin, while there were no Hispanic residents reported between 1940 and 1960. In 1970, this segment of the population grew exponentially to 4,916, continuing the climb to over 17,243 by 1990. The combined black and Hispanic urban population exceeded 46% by 1990.<sup>13</sup> The increasing prevalence of a non-white and immigrant population led to a shift in the public discourse associated with the City. While white flight was endemic of a larger change in attitude and a re-assignment of value surrounding the makeup of the home, the assumptions and perceptions surrounding the racial elements of this new population was a self-fulfilling prophecy. This is especially true when examining the housing component.

As a widespread exodus to suburbia decimated the City's tax base, the once bustling urban center and immediate surrounding neighborhoods felt the effects with the most immediacy and severity. This left the new urban population, now primarily black and brown, with less access to job opportunities, waning quality public services, and a significant shift in the priorities of the municipal government. Under these conditions, the newly subjugated populations fell into poverty with no substantive means of social mobility. As a result, many of the societal symptoms that one might inherently associate with minorities were in actuality a direct result of the poverty that these racial groups became subject to in the wake of white flight. This led to a vicious cycle through which the realities of poverty become systemically habituated and ingrained within the perceived culture and identity of black and brown urban populations.

Starting in 1855, one of the most important employers in New Haven was the Winchester Repeating Arms Company. The Company was famous for creating the

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<sup>13</sup> Solomon, page 5.

repeating rifle that “won the west,” and employed 22,000 people during World War I, with more than two-thirds of the manufacturing taking place in the Newhallville neighborhood. Winchester modeled itself after other corporate entities of this time, creating a company-owned bank, a bowling alley and other entertainment options for its workers.<sup>14</sup> As Winchester expanded during the late 19th and early 20th centuries, much of the immediate area surrounding their plant was developed as housing for industrial workers. Winchester’s workforce properties were primarily one, two, and three-family tenement homes.<sup>15</sup> The housing was meant to create the ability for perspective laborers to walk to work and access supplemental company industry, services and infrastructure with ease. Intent on using the property for short-term rentals, real estate investors constructed more housing units in the Newhallville neighborhood surrounding the Winchester plant. They hoped to profit in the future as the area’s infrastructure developed.

As World War I ended, the demand for work slowed down and in 1930 the Winchester Repeating Arms Company was sold to the Olin Corporation. After this change, the factory and its workers began producing skis, swimming pool chemicals and scuba diving equipment. This continued until World War II, when the factory was retrofitted to begin war material production again. This led to another increase in demand for manufacturing labor. The factory soon employed over 12,000 people again.

“The years following World War II was a gradual decline in the production levels of the Olin Corporation due to the obsolescence of the factory and labor disputes; the company’s employee roster declined to 1,400 by the late 1970’s. As a result of a combination of increasing unemployment, the flight to the suburbs of many of

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<sup>14</sup> Joe Dobrow, “A Farewell to Arms: The Mutual Rise and Fall of the Winchester Repeating Arms Company and New Haven, Connecticut”, 39. *Journal of the New Haven Colony Hist. Society* 20, 23 (1992).

<sup>15</sup> United States Department of the Interior. *National Register of Historic Places: Winchester Repeating Arms Historic District, New Haven, Connecticut*, December 1987

the area's middle-income residents, and the low percentage of owner-occupied houses, the physical character of Newhallville rapidly began to decline.”<sup>16</sup>

At the same time, between 1950 and 1980, the black population in Newhallville increased from 3.2% to 92.2%. The loss of employment opportunities at the Olin factory left the neighborhood weak and economically isolated. With Olin's divestment from this area, it became an increasingly undesirable market for housing and commercial enterprise. Many of the remaining structures and homes were converted into multi-family rentals and the existence of owner-occupied units became rare.

Newhallville was one of many neighborhoods that felt the adverse effects of New Haven's downward trajectory. In an attempt to combat this trend, municipal leaders sought out a way of reversing the damage done by white flight. As part of a nationwide movement, New Haven would become a testing ground for many of the theories associated with the federal “Urban Renewal” program. In the early 1950's, under the leadership of Mayor Richard Lee, plans began to take shape for New Haven's future. The mentality of the national Urban Renewal movement was rooted in the revival of deteriorating urban spaces through slum clearance and blight prevention. While Richard Lee was the face, the brain of New Haven's movement was Edward J. Logue, the City's Development Administrator. While Logue did similar work in Boston and areas of New York State during his career, New Haven was where Logue learned important lessons about the implementation of a variety of urban planning and development techniques, informing much of his future work. Logue turned New Haven into the nation's “model

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<sup>16</sup> *New Haven Resources Inventory. Phase III: Northern New Haven. Newhallville: Historical and Architectural Summary.* 37-38

city” of urban renewal in the 1950’s, receiving more federal dollars per capita than any other American city.”<sup>17</sup>

Logue was a Yale Law School graduate and began his work in New Haven at age 33. Logue’s general strategy was multifaceted. His plans included the following:

“...putting a highway through a deteriorating low-income neighborhood to motivate retreating suburbanites downtown; trying to hold onto middle-class New Havenites by constructing high-rise luxury apartments; remaking the heart of downtown with suburban-style department stores, a shopping mall and massive parking garage; and modernist developments or rehabbing and encouraging gentrification.”<sup>18</sup>

His general strategic vision was rooted in re-development. Both Lee and Logue saw this redevelopment as a private function and appointed an advisory committee that included Carl G. Freese, president of Connecticut Savings Bank; James W. Hock, chair of the United Illuminating Company; Patrick B. McGinnis, president of the New York, New Haven and Hartford Railroad; James A. Walsh, Sr., chair of the Armstrong Rubber Company; and A. Whitney Griswold, president of Yale University.<sup>19</sup> Logue proposed that if the City could contest the public discourse surrounding the downtown area through aggressive strategic development and construction. In addition, Logue thought this strategy could not only attract commerce from the suburban sector, but also spark renewed middle-class interest in residing in this area. This change, he argued, would allow for a reinvigoration of the tax base and an increased potential for the City to attract new businesses and investment. He sought to “plan with people,” using consumer commerce as a means of triggering systemic change.<sup>20</sup>

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<sup>17</sup> Lizabeth Cohen. “Ed Logue and the Struggle to Save America’s Cities”. Real Estate Academic Initiative, Harvard University. March 2010, page 3.

<sup>18</sup> Cohen, page 7.

<sup>19</sup> Solomon, page 11.

<sup>20</sup> Cohen, page 7.

Logue's ideas regarding neighborhood structure, which mirrored the national model, were not inherently inequitable. All the surrounding neighborhoods were to be made up of the same basic structure. This included residentially homogenous units of detached houses, row houses, and apartment buildings, each with its own grade school, access to adequate shopping, a community center, and recreational facilities. Neighborhoods were to be separated by physical barriers or main transportation lines to encourage quiet, safe places for people to live. Problems arose out of the implementation of this vision. Inequality was produced through the ways in which these initial ideas were executed, selectively applied and altered to serve the interests of segments of the population that possessed more socio-cultural clout.

Many of these changes resulted in long-term implications that continue to impact New Haven's neighborhoods. In neighborhoods like Newhallville and West River, we see this homogenous housing stock; yet little of the original neighborhood structure functions as intended. For example, nationwide franchises have moved in, providing low-wage jobs and low-quality products to low-income residents. Physical barriers and transportation lines often separate these neighborhoods from their surroundings. But instead of creating the quiet and peaceful environment deemed desirable, the results include decreased access to other resources and isolation. Logue and his colleagues did not recognize or care for the long-term implications of this re-vitalization strategy on those segments of the population that it was not manufactured to serve.

One of the most important facets of Edward Logue's Urban Renewal plans was implementation of the Federal-Aid Highway Act of 1956, signed by President Dwight D.



Eisenhower.<sup>21</sup> A reaction to the growing automotive industry and increased desire for direct access to and from the urban cores of American cities, this program gave state governments complete control over new highway construction. The legislation authorized \$25 billion dollars to be made available to states during the fiscal years of 1957 and 1969. Ninety percent of new interstate construction costs were to be covered under federal fund allocations. On June 29, 1956 the money began to flow as the Department of Commerce apportioned \$1,125,000,000 to fund state proposals.<sup>22</sup> One of the proposals funded was Logue's in New Haven, which prioritized his strategy of connecting suburbanites with the downtown area. This highway construction was framed by the general principles of Urban Renewal. Therefore, if slum clearance and blight prevention could be achieved while installing these new highway systems, this was effectively a multi-faceted success. The funds led to the construction of a turnpike that is now the main throughway for the City, allowing motorists' access to I-95, I-91 and the Merritt Parkway.

The turnpike was built across the harbor, routed northward through Wooster Square toward East Rock, where it eventually splits. One branch goes northward to the Merritt Parkway, while the other leads eastward along the coast, eventually veering northward in the direction of Hartford. These separate pathways all converge at a connector that runs directly into different parts of the downtown area via three exits. While the construction and planning of this project was full of interesting choices, the implications of the I-91 route, which was later changed to create an artificial loop, are the most important. When referencing the map, it is clear that this loop serves no practical

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<sup>21</sup> "The Greatest Decade". Highway History: U.S Department of Transportation Federal Highway Administration. <http://www.fhwa.dot.gov/infrastructure/50interstate.cfm>

<sup>22</sup> Ibid.

function as it lengthens the travel distance for motorists.<sup>23</sup><sup>24</sup> The structure does have a substantial spatial effect on the landscape, as it effectively separates Fair Haven from Downtown, Wooster Square and East Rock. Right where the isolating incision occurs, there is a large low-income housing project called Farnham Courts.

With the presence of the interstate, Farnham Courts became aligned with Fair Haven to the east and spatially separate from Wooster Square and Downtown. When examining the spatial breakdowns of these two adjoining neighborhoods, there is a palpable difference in the upkeep, housing stock and general atmosphere. Wooster Square is home to the historic “Little Italy” district and houses one of New Haven’s most prized legacies: pizza. This three-block strip of Italian restaurants is home to the original Frank Pepe’s Pizzeria, founded in 1925 and arguably serving the best pizza in America.<sup>25</sup> Wooster Square Park, which runs parallel to Little Italy, is the focal point of this area. Wooster Square’s park space is immaculate, bordered by trees and used as community space for farmers markets, local events and casual congregation for families. This communal space is the nucleus of a neighborhood filled with culinary culture, coffee shops, historic buildings and upscale rental property.<sup>26</sup> Today, it is full of highly desirable real estate and rental property, as it provides an attractive alternative to East Rock or Downtown for Yale Faculty and grad students. Wooster Square is also home to a growing population of young urban professionals working in New Haven’s downtown area.

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<sup>23</sup> See Figure set 1.2.

<sup>24</sup> "Can New Haven's Renewal of Farnam Courts Help Reconnect Neighborhoods?" *Design New Haven*. N.p., 18 Oct. 2012. Web. <<http://downtownnewhaven.blogspot.com/2012/08/can-new-havens-renewal-of-farnam-courts.html>>.

<sup>25</sup> New Haven Pizza Named Best In America. October 2013.

<http://newyork.cbslocal.com/2013/10/22/new-haven-pizza-named-best-in-america/>

<sup>26</sup> See Figure set 1.5.

While Wooster Square's housing stock is significantly denser than areas like Westville and East Rock, it is full of historic brick and stone row housing. It also possesses the same tree-canopied streets that are found in the affluent mini-suburb sections of the Westville and East Rock neighborhoods. There are large old homes surrounding the park that have been converted into commercial spaces, adding an upscale feel to the neighborhood. Many of these buildings were previously home to Yale faculty, esteemed merchants, and military officers. Wooster Square provides residents with direct, walk-able access to downtown with convenient admission to transportation through various bus stops. It is also very close to Union Station, New Haven's hub for Metro-North and Amtrak train lines. While Wooster Square is home to a complex network of one-way streets, they create the quiet exclusivity that urban renewal's master plan for neighborhood structure sought to provide. Also, Wooster Square's location allows for direct access to the City whenever desired. Wooster Square is just isolated enough to keep it quiet and safe, but not so much that it feels disconnected from the larger city.

Wooster Square's desirable reputation may shed some light on the stark spatial rift created by Logue's actions. Curtained off by the artificial loop of I-91, the Farnham Courts housing development also has multiple communal green spaces. The main area, DeLauro Park, is the only visible green space for non-residents. It has a large playground as well as several picnic benches and other common seating areas. This space is located directly off the busy Grand Avenue corridor and is enclosed by black iron fencing. These fences serve a safety function; however, their existence also creates a feeling of detachment to the surrounding space, from both internal and external perspectives.<sup>27</sup> Between the fencing to the south and raised expressway to the west, this housing

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<sup>27</sup> See Figure set 1.4.

complex is effectively isolated. The park's use also differs from its intended purpose and the uses of similar spaces elsewhere in the City. There have been policing issues surrounding alleged illegal activity and violence in this area, which have drawn complaints from residents and community leaders alike.<sup>28</sup> One of the largest impediments for police is the isolated nature of this space. Not only is the development isolated from neighboring communities, but also is only accessible by one road with no throughway to any other part of the City. Farnham Street runs parallel with the interstate and serves the sole purpose of providing access to the various complexes that make up the housing development.

While new investment in Wooster Square has come in the form of housing renovations and new additions to the vibrant historic culinary culture, the area surrounding Farnham Courts mirrors the spatial value that the market and City have assigned. Directly across from the development on Grand Avenue is a liquor store and, beyond that, the surrounding area includes a men's homeless shelter, a supermarket and a variety of other service-oriented small businesses and light industrial factory buildings. The greater Fair Haven area, which is experiencing pockets of economic growth anchored by rising residential demand near the Quinnipiac River, has also created a separation between itself and the Farnham Courts section of the City. The segment of Grand Avenue that acts a threshold between the two areas lies on a train track. The vacant industrial buildings that line this stretch and the spatial presence of a small bridge create an effective separation between the Farnham Courts and the neighborhood that

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<sup>28</sup> Defiesta, Nick. "Farnham Courts Playground Closer To Demolition." *New Haven Independent*. N.p., 14 Nov. 2013. Web.  
<[http://www.newhavenindependent.org/index.php/archives/entry/say\\_goodbye\\_to\\_delauro\\_park/](http://www.newhavenindependent.org/index.php/archives/entry/say_goodbye_to_delauro_park/)>.

extends out of the Quinnipiac River section of Fair Haven. The physical presence of the interstate has led to a legacy of isolation that has only been exacerbated over time.

The contrasting realities between these two neighborhoods, separated by nothing more than a few hundred feet, is the direct result of the City's use of the interstate highway plan for the goals of Urban Renewal. The consequences are made apparent through the palpable contrast in physical condition and the tangible economic difference in the respective housing markets of these neighborhoods. The extreme variance in the value of housing stock found in these bordering neighborhoods is inextricably linked with the unique forms of isolation projected upon them. As a result, the populations of these areas manifest the socio-spatial value associated with their surroundings. This reality is illustrated and complicated by Farnham Court's main communal park. The issues with policing and illegal activity have led to a communal outcry and widespread support for demolition and new Housing Authority commissioned construction to increase the units in the complex<sup>29</sup>. While this step may be supported and deemed necessary, this would also further increase the density of this area and eliminate the main communal green space.

Finally, when comparatively analyzing the two spaces, one often-overlooked contrast is tree density. In Figure set 1.5 from Wooster Square and Figure set 1.4 from Farnham Courts, the contrast is remarkable. While tree density would seem like a purely aesthetic issue, researchers from the University of California looked at 63,436 census block groups from across the country and identified that the blocks most at risk during

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<sup>29</sup> Defiesta, Nick. "Farnam Courts Playground Closer To Demolition." *New Haven Independent*. 14 Nov. 2013. Web.  
<[http://www.newhavenindependent.org/index.php/archives/entry/say\\_goodbye\\_to\\_delauro\\_park/](http://www.newhavenindependent.org/index.php/archives/entry/say_goodbye_to_delauro_park/)>.

extreme heat are those with a lack of tree cover.”<sup>30</sup> This makes the proposition of demolishing Farnham Court’s main green space even more problematic, as it is home to the majority of the development’s trees and green space. This tangible dilemma is endemic of how limited the options are for the residents of a development like Farnham Courts. This is compounded by the economic reality of the area, which housing a population that is susceptible to issues with heat during the summer. Many of these households cannot afford the bills that come with air conditioning and other tactics of mitigating extremely hot temperatures. The end result is an ultimatum with negative results regardless of the choice. Without the park, the already scarce green space and tree density would be removed, leading to a variety of negative outcomes. Alternatively, taking no action does nothing to solve the original problems of illegal activity.

When we expand this comprehensive comparison beyond the street level, it is important to recognize the larger changes created by the interstate. Beyond the localized separation in the Wooster Square/Farnham Courts dynamic, the construction creates complete separation between greater East Rock and greater Fair Haven. While Wooster Square shares a main street with Farnham Courts and Fair Haven, East Rock, which once shared a direct border with this area, is wholly separate and inaccessible. No matter what analytic framework is utilized, “our cities haven’t developed according to some natural law of urbanization or according to some invisible hand. They have been shaped by big and small decisions, some of them bad.”<sup>31</sup> Despite the verbiage of men like Logue in the his master plan, entitled “An Experiment in Organic Planning for New Haven,” we must

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<sup>30</sup>Emily Badger. “The Inequality of Urban Tree Cover.” The Atlantic Cities.  
<http://www.theatlanticcities.com/housing/2013/05/inequality-urban-tree-cover/5604/>

<sup>31</sup> Matt Petronzio. Google Maps: Tree Density Tells the Story of Income Inequality. Mashable.  
<http://mashable.com/2012/07/18/google-maps-income-inequality/>

remember that there is nothing organic about the way that Urban Renewal structured New Haven's environment.<sup>32</sup> Assigning a scientific façade to his plans acts as a means of displacing any real accountability, chalking up the negative manifestations and income disparities to some organic societal survival of the fittest. Unfortunately for Logue, cities are not organic organisms; therefore, there is nothing inherent about their layout.

As white professional populations gradually reversed their suburban migrations, they began to utilize the blueprints drawn by Urban Renewal as a means of choosing where to relocate. Their investment and the revitalization that came with it were influenced by the neighborhoods that they found most spatially attractive and accessible. While this selective investment brought up certain middle-income neighborhoods, it had no effect, or even further weakened, the deterioration and blight in some of the neighborhoods that Urban Renewal initially sought to reform. As the traditionally wealthy micro-suburban communities of East Rock and Westville rebuilt their tax bases, increasing localized public services and infrastructure, the historically underserved neighborhoods became even worse. As the rich areas became more developed, access to the necessary resources and services that facilitate social mobility became displaced in an increasingly disproportionate manner.

In the past few decades, there has been a nationwide reversal of divestment in the urban core of American cities.<sup>33</sup> Urban professionals have outgrown the American dream's white picket fences and now yearn for a connection to the City's walkability and culture, as well as the exposed brick walls of residentially converted industrial spaces. Urban centers like New Haven's downtown have had to accommodate and change their

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<sup>32</sup> Solomon, page 11.

<sup>33</sup> Dougherty, Connor. *The Wall Street Journal Online*. "The End of White Flight."  
<http://online.wsj.com/news/articles/SB121642866373567057>

housing stock and commercial makeup to meet the new demand for consumer options that comes with this ever-increasing population. Access to high-end rental stock has led to the demographic shift of New Haven's downtown area and shaped its spatial relationship with surrounding neighborhoods. While some of these changes are modern day modifications and the products of market force reversals, much of these spatial constructions are rooted in New Haven's urban history beginning with the Federal Urban Renewal programs of the 1950s.

Almost none of the goals promoted via Urban Renewal materialized to the extent that its visionaries hoped. Not until Yale began to take a more active role in the acquisition of property in the City during 1990s did the downtown begin to transform into the gentrified, middle-class commercial area it has become today. As New Haven's largest landowner, Yale has substantial control over how the City is shaped. This leaves decisions in the hands of a private entity that serves the interests of its board members, faculty, students and alumni first and those of New Haven's remaining population second. If the recent purchase of a public street is any indication of Yale's role in the long-term course of New Haven's urban composition, privatization of public spaces will certainly be a feature.<sup>34</sup>

With so many areas of New Haven serving as home to powerful and wealthy citizens, what does it say about the make-up and economic dynamics of the City that it still scores so low relative to other parts of the state? The income gap that we see trending on a national scale seems to materialize spatially in the sharp contrasts between Yale-dominated downtown and the foreclosure riddled housing stock of areas like

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<sup>34</sup> Bailey, Melissa. "Yale, City Strike Wall Street Deal." *New Haven Independent*. 7 May 2013. Web. <[http://www.newhavenindependent.org/index.php/archives/entry/yale\\_city\\_strike\\_wall\\_street\\_deal/](http://www.newhavenindependent.org/index.php/archives/entry/yale_city_strike_wall_street_deal/)>.



Newhallville and Dixwell. What makes New Haven unique and a true legacy of the Urban Renewal vision is that these neighborhoods share physical borders. The legacy of Urban Renewal, coupled with the interplay between private entities and the public good is at the core of New Haven's urban history. These relationships and their effects on the marketplace also point to an important aspect of the housing market, which plays out on both the local and national levels. When private institutions control development decisions, it is nearly impossible to achieve the pragmatic distribution of resources and serve all subsections of the socio-economic spectrum.

While institutions and policy played a substantial role in shaping the urban makeup of New Haven, the modern condition is one shaped largely by market forces. While seemingly disconnected, these two spheres of influence overlapped in the midst of the 2008 housing crisis that the market continues to slowly recover from today. The effective isolation and disenfranchisement of specific sections of the City has only exacerbated the effects of these market forces on underserved areas. Indeed, the effect of a downturn in the housing market manifests itself on a magnified scale when we examine these particular markets. This is compounded by the fact that the economic realities for many residents in these areas makes it more difficult for them to navigate the fallout of a crisis. This reality also substantiates a recognition that the distribution of resources and services across the socio-economic spectrum serves to stabilize the market more effectively than concentrating development and investment into a few choice neighborhoods. While there is no question that recession has a proportionately more severe influence on the lives of the underserved, there is no denying the devastating effects suffered at the top and throughout the socio-economic hierarchy.

## 2. The Legacies of Subprime: National and Local

The United States' worst housing crisis since The Great Depression hit New Haven against this backdrop of Urban Renewal's legacy, socio-economically weighted public policy, and ongoing institutional influence on its structural makeup. The aftermath of the nationwide financial recession and housing market collapse has forever shaped New Haven and the country as a whole. In many ways, this crisis began as the market's reaction to the existence of so many underserved populations within American's cities. As the disparity in wealth grew, the populations residing at the bottom became more desperate, willing to do almost anything to attempt the social mobility that is at the core of America's projected identity and value system. This desperation created an incredibly lucrative opportunity for business to step in and service the aspirations of these populations, regardless of the long-term financial viability. This is the legacy of subprime.

Since our country's conception, prominent American economic theorists have championed the free market as a cornerstone of economics. The "free market" is inherently linked to democracy, liberty and the other pillars of American ideology in our public lexicon. These connotations have fused their separate definitions into one communal and coherent public discourse. Milton Friedman, one of the most influential contributors to economic theory in the 20<sup>th</sup> century, served as an economic advisor to senior policy makers and the Department of the Treasury, spanning both Democratic and Republican leadership. This presence cemented the permeation of his ideas into the fabric of modern American economic thinking. While Friedman's contributions are

multifaceted, he has and continues to be a proponent of neoliberalism. At the core of this theory is the restriction of government regulation on financial markets. Influenced by Friedman's ideas, President Ronald Reagan and Prime Minister Margaret Thatcher implemented policies in the United States and Great Britain to create widespread deregulation and privatization of historically state-owned industries. Friedman's economic counsel promoted the ideas of "trickle down economics," which in turn reduced federal income and capital gains taxes, subjugated trade union power, and tightened control of currency supply. One of Friedman's core beliefs is that the "free market" can only function properly when it is truly free.<sup>35</sup> Within this model, private industry can and will regulate itself as well as benefit larger society and the average citizen.

Much of Friedman's beliefs stem from his libertarian roots. In a 1993 public policy essay, "Why Government is the Problem," Friedman explains free and open access to an unregulated economic marketplace as a significantly more potent means of balancing the scales than any government program or policy: "The great virtue of a free market system is that it does not care what color people are; it does not care what their religion is; it only cares whether they can produce something you want to buy. It is the most effective system we have discovered to enable people who hate one another to deal with one another and help one another."<sup>36</sup> This statement suggests that social, racial and religious friction is best addressed through market-based interaction and dispersal. While he claimed that the free market addresses traditional social issues, Friedman also believed that there is "one and only one social responsibility of business—to use its resources and

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<sup>35</sup> Friedman, Milton, Capitalism and Freedom. The University of Chicago Press. 1962. 2002.

<sup>36</sup> Friedman, Milton. *Why Government is the Problem*. The Wriston Lecture. 1991. Page 18

engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.”<sup>37</sup> In essence, Friedman suggests that a profit-driven mentality, fused with open, unregulated access to a free market, is the most effective means of creating a balanced societal and financial hierarchy. In his opinion, this structural hierarchy transcends the legacies of class, race, education, access or any other predisposed impediment to financial and social mobility.

The economic ideas of Milton Friedman are extremely important when attempting to understand the trajectory of our current economic reality. The focus of this section is to understand how the extreme market inflation that created the housing bubble occurred and, more importantly, why this legacy and the lasting social implications are important. I examine the history and legacy of subprime lending, from its conceptual foundation to its current market implementation and implications. As an example, I present the story of New Haven’s largest proprietor of low-income rental housing, Mandy Management LLC. I will examine the implications of the Mandy Management model, its mutations during and after the national housing crisis, and the social and systemic impact of this “disaster capitalism” mentality.

The modern mortgage finds its mainstream foundation in the 30-year re-payment structures of Post-WWII America. In the late 1940s and early 1950s, with a small sum of cash for a down payment and an affordable monthly bill, the average GI could suddenly purchase a home and embark on a government-subsidized American dream. While many of these initial programs were federally securitized, this structure soon took hold in the

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<sup>37</sup> Friedman, Milton: “The Social Responsibility of Business is to Increase its Profits,” *The New York Times Magazine*, September 13, 1970

greater private marketplace. The primary servicers for this new financial product were banks. At this point in history, the multi-national hybrid financial institutions that we currently consider practitioners of mainstream banking did not exist. Until recently, even the largest national banks were structured as depositories that also provided lending products. The traditional structure of banking is rooted in low risk, class-A lending strategies.

Banks offer mortgages, as well as other small business or personal loans, to low-risk clients with strong credit ratings and tangible liquid assets or income. Mortgage loans present even less risk as they are linked to a physical structure, collateralizing the lending risk in possible default. The basic structure of your average “savings and loan” bank is quite simple. Individual depositors entrust the bank with access to the cash in their savings in exchange for a small annual interest rate return. This rate is usually less than one percent and, in today’s marketplace, the average savings account interest rate is 0.21%. The bank then takes this capital and invests it through the origination of mortgage loans for prospective homeowners, offering their own *lender* interest rates. While these rates have fluctuated over the years, they have always remained a few percentage points higher than the rates offered to savings depositors. This margin is where a traditional savings and loan bank garners its profits.

One of the other cornerstones of the traditional saving and loan framework is strict adherence to risk containment. While the veterans of World War II had full access to mortgages directly through the government as a reward for their service to the country, private banks are businesses that seek to maximize their profitability. Therefore, access to a loan of any kind, especially a mortgage, is restricted along financial lines. From the

bank's perspective, it only makes financial sense to lend money to someone who is very likely to stay current on his or her monthly payments. Despite the existence of the physical structure, which acts as collateral for the loan and assures that the bank will retain a certain percentage of equity on any one deal, there is no way to account for the changing marketplace and its correlation with the value of any particular property. Also, the processing of a defaulted mortgage, including the foreclosure sale and re-deeding, require significant effort and time. Depending on the county and its specific workload, taking a property through foreclosure proceeding can take anywhere from six months to three years. During this waiting period, the property and the defaulted mortgage associated with it, is a non-performing asset. This property cannot be sold or re-mortgaged before the preliminary origination is discharged at foreclosure. During this process, the bank is left with the bill for securing, winterizing and maintaining the property.

While banks are not the only financial institutions that originate mortgage loans, they are one of the few types of business with access to the capital necessary to execute this model. Though the unique structure of savings and loan functioned quite well, it was financially restrictive on the grounds of access. The reality for someone living near or below the poverty line in America was the inability to qualify for a traditional loan from the bank. The bank's use of depositor funds was also restricted through federal regulation to small business loans, car loans and mortgages. Since our country operates with a centralized bank, the Federal Reserve sets interest rates and a banking institution must cater to their financial models utilizing these rates in order to maintain profitability. While a depositor in a bank has up to two hundred and fifty thousand dollars insured by

the Federal Deposit Insurance Corporation, a bank must be sure to minimize its risk as a means of maintained regulatory standards and a safe financial structure that can weather the inevitable rise and fall of the housing marketplace.

Due to the unyielding risk aversion at the core of traditional banks' lending strategies, a large subsection of U.S. population was denied access to funding for the physical structures at the center of the American dream. The vacuum created in the marketplace by this restrictive access was quickly filled by a variety of companies seeking to capitalize on the limiting nature of traditional lending. While these alternative lenders took many forms, Beneficial Finance's strategies and legacy are particularly representative of what would become a growing national industry. From the start, Beneficial Finance's business model drew inspiration from the loan sharking that founded many of America's most famous organized crime rackets. Founded in 1914 in Elizabeth, New Jersey, Beneficial constructed a system that allowed people access to lending products not traditionally available to them due to their financial status.<sup>38</sup> Operations started small and these micro consumer loans, originated by management trainees like Peter Cugno, were used by the blue-collar work force as short-term financial solutions for rent, medical bills and other unexpected expenses.

Beneficial's customers did not qualify for traditional bank loans due to credit issues, criminal history, citizenship, racial discrimination and other mitigating financial circumstances. Beneficial was not a bank; therefore, the company had no depositors. Instead, it was a privately funded, small-balance consumer loan originator; its first office set a \$300 limit for its customers. By 1924, Beneficial had 80 offices and made thirteen

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<sup>38</sup> Muolo, Paul and Padilla, Matthew. Chain of Blame: How Wall Street Caused the Mortgage and Credit Crisis, 2010. John Wiley and Sons, Inc., page 27.

million dollars in loans per year. Amazingly, its average loan size remained just \$100.<sup>39</sup> By the 1960s, Beneficial had around 1200 retail consumer finance offices in the United States and Canada, with an origination volume of 900 million and an average loan size of \$370.

The collateralization of these small credit assets was rooted in repossession of physical property. This is where management trainees like Samuel Cugno join our narrative. Cugno joined Beneficial right out of the Army in the 1960s. He was what people in his industry called a “repo man.”<sup>40</sup> Cugno performed the origination for all of his loans and then handled the servicing and collections personally. If the situation called for it, he also dealt directly with default. If the loan went bad, the financial burden fell directly on the trainee; so repayment was extremely important to them. In the instance of non-payment, the general process was to begin with a few letters, followed up by phone calls. If this did not work, the management trainee would locate the borrower’s workplace and attempt to confront them on the premises in an effort to embarrass and encourage repayment to avoid further harassment. If none of this worked, the next step was repossession. This included staking out the home or car of a borrower, looking for an opportunity to acquire car keys, a television or any other piece of personal property that could go toward settling the delinquent balance. None of this behavior was legal and borrowers sometimes challenged repossessions in court, however, this subsection of the marketplace was unregulated and these steps were common practice among such organizations.<sup>41</sup>

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<sup>39</sup> Muolo and Padilla, page 28.

<sup>40</sup> Muolo and Padilla, page 29.

<sup>41</sup> "Beneficial Finance Co. v. Young." *Justia US Law*. <<http://law.justia.com/cases/oklahoma/supreme-court/1980/4752-1.html>>.



While repossession was one means by which a default could be handled, the other core tenant of this business model takes direction from the traditional savings and loan structure. Just as the banks' profits lay in the margins created by their interest rates, companies like Beneficial found a way to hedge the risky nature of their economic bets. Since the people looking for small consumer loans were often doing so out of necessity or even desperation, they often lacked the financial foresight to scrutinize the long-term implications of the lending contract. From the viewpoint of a company like Beneficial, the margins needed to be significantly higher to accommodate for the increased likelihood of default. Thus while a traditional car or small business loan from a bank would hold an interest rate of anywhere between four and seven percent, Beneficial would charge fourteen to seventeen percent. This meant that the consumer paid a significantly increased premium on his or her access to this financial product.

As time passed, Beneficial began to broaden the scale of its business aspirations. Due to the incredibly high profit margins associated with these loans, as well as their ever-increasing size, quantity and popularity in the marketplace, by the 1960s Beneficial began to outgrow its business model.<sup>42</sup> Its repossession strategies became detrimental to their image as a publically traded company and leadership began to explore a new direction. Furthermore, Beneficial could never achieve scaling with consumer payday loans and needed to increase loan origination size. They needed to create a new lending product. In the late 1960s, Beneficial began to carve out a new niche in the lending market. Cugno and his fellow management trainees began to originate second liens, often called second deeds of trust, second security deeds, second mortgages or second warranty

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<sup>42</sup> Muolo, Paul and Padilla, Matthew. *Chain of Blame: How Wall Street Caused the Mortgage and Credit Crisis*, 2010. John Wiley and Cons, Inc. Page 35

deeds of trust. These loans were significantly larger in value, as their origination size was correlated to the equity associated with a property. This equity came from the borrowers' first lien, also called a senior mortgage, held in the portfolio of a traditional bank. Since the borrower had paid down a portion of this debt, equity was created through the loan to value ratio of their remaining first mortgage. One of the reasons these second liens were so risky was that they had no direct claim or security in the physical structure with which they were associated. If a borrower defaulted on their senior mortgage, the debt associated with the second lien would be discharged at foreclosure and Beneficial would receive nothing and have to write off the deficiency.

Prior to Beneficial, the origination of these second liens was unheard of as banks considered them to be too risky. A large majority of the borrowers that Beneficial attracted and served possessed credit scores that were mediocre to extremely low. Therefore, in exchange for these products, they were willing to accept interest rates that averaged 5-7 point higher than that of their original senior mortgage. Often this second line of credit would represent nothing more than a temporary sense of financial stability. Sometimes the equity was not correlated with their financial situation at all and desperate borrowers used this second line of credit to stay current on their senior mortgage payments after losing a job or falling ill. Since Beneficial was entering a economic niche that held substantially inflated risk, their loan officers were advised to use discretion and exercise strict adhere to the parameters of equity and present loan to value ratios for any specific property. When Cugno left Beneficial in 1979, its average loan origination had ballooned to approximately \$17,000, holding \$4 billion dollars worth of residential liens

on their books and generating over 100 million dollars each year through a variety of different interest rate cycles.<sup>43</sup>

Beneficial's model laid the foundation for the subprime movement. The Secondary Market Enhancement Act of 1984 opened up the marketplace for legal, new mortgage products. With Beneficial success and the mainstream acceptance of this new subprime mentality, the origination of these loans grew exponentially from the mid 1980's to their height in 2005-2007.<sup>44</sup> A subprime loan is categorized using two main criteria: 1) first, it refers to credit issued to borrowers with a poor FICO credit score of 620 or below; and 2) second, the loan is categorized as high leverage, a label measured by either the debt-to-income ratio or the loan-to-value ratio.<sup>45</sup> With the widespread demand for these products from a newly qualified segment of the population, Beneficial and other similar companies suddenly needed access to an unprecedented new level of capital to continue their scaling into broader geographic marketplaces. Looking for access to hundreds of millions of dollars, they showcased their high profit model and gained access to a new level of capital mobility allotted by warehouse lines of credit. Due to the massive scale of this new layer to the lending structure, Beneficial was able to borrow large sums for short loan terms at extremely reduced interest rates, sometimes less than 1%. Often these rates were fractions of a percentage point, depending on the term of the loan. This allowed for the conveyance of a fraction of Beneficial's total interest-rate profit margins in exchange

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<sup>43</sup> Rock Center for Corporate Governance, SLS. Financial Crisis Inquiry Commission Report, Chapter 5: Subprime Lending. Page 68

<sup>44</sup> Barnes, Ryan. "The Fuel That Fed The Subprime Meltdown." *Investopedia*. 26 Feb. 2010. Web. <<http://www.investopedia.com/articles/07/subprime-overview.asp>>.

<sup>45</sup> Fame, Scott, Lehnert, Andreas and Prescott, Ned. "A Snapshot of Mortgage Conditions with an Emphasis on Subprime Mortgage Performance." Federal Reserve Mortgage Initiatives Coordinating Committee. August 27<sup>th</sup>, 2008.

for unlimited access to capital.

Under this new structure, Beneficial's profit margins and market share grew. They began to attract the attention of the very same financial institutions that had provided them with these warehouse lines of credit. These companies began to pay attention to Beneficial's numbers and look upon the profitability of their business model with envy. Often, these same companies would purchase the loans Beneficial originated on the secondary market. This meant that post-origination, a large transitional financial institution like J.P Morgan Chase would purchase a bundle of new loans from Beneficial. Then, the larger institution would either hire third parties to service these assets or turn large bundles of these loans into mortgage-backed securities that could be resold to alternate investors. Due to the massive volume of loans used to create these securities, they were often rated AAA, the highest possible credit rating. Due to this rating they were often purchased by retirement and pension funds as low-risk investments. This was the beginning of the permeation of a subprime mentality into the national marketplace.

Angelo Mozilo was the chief executive officer and chairman of the board for Countrywide Financial until July 1, 2008. While there are now books written on Mozilo's character, legacy and role in the collapse of the mortgage market, he is a particularly important piece of subprime lending's historical trajectory. Unlike Samuel Cugno, Mozilo's career was built off of lending to Americans with good credit. This was a massive market and Mozilo was an extremely knowledgeable and unrelentingly competitive industry leader.<sup>46</sup> The model of this grade A lending marketplace was all about risk mitigation and relied heavily on the insurance provided by the existence of

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<sup>46</sup> Gongloff, Mark. "Angelo Mozilo Has 'No Regrets,' Former Countrywide CEO." *The Huffington Post*. TheHuffingtonPost.com, 13 Dec. 2012. Web. <[http://www.huffingtonpost.com/2012/12/13/angelo-mozilo-no-regrets\\_n\\_2293901.html](http://www.huffingtonpost.com/2012/12/13/angelo-mozilo-no-regrets_n_2293901.html)>.

Fannie Mae and Freddie Mac, the hybrid public and private organizations used by the US Government as a means of regulating and securitizing the national housing market. If a company like Countrywide originated a home loan, utilizing the parameters and regulations regarding credit and structure publicized by these organizations, they could then sell these mortgages to Fannie and Freddie. This was a massive mitigation of risk, as it meant that, post-origination, the risk associated with keeping the line of credit in a company's portfolio was non-existent. While the profit margins were smaller, this led to fierce competition for market share, as the scale of a company's infrastructure and processing was the only way to produce large profits.

Mozilo grew Countrywide through his shrewd business sense and instincts into a major player in the traditional mortgage market. During the mainstream rise of the alternative lending market in the 1980s and 1990s, Mozilo wholly rejected the concept of subprime, criticizing the inherent risk and unstable structure. Yet Mozilo was also obsessively competitive and, as subprime origination and lending permeated its way into the portfolios of his competitors, Countrywide began to lose their foothold in the marketplace. By 2000, Countrywide had changed its stance on subprime loans and began to stake a claim in this marketplace. Under Mozilo's leadership, Countrywide moved its business beyond the parameters of its brick-and-mortar offices, employing an army of independent loan brokers. These contractors worked independently, building a personal portfolio of loan originations that they personally facilitated with individuals in their communities. Once they had a sizable bundle, they would bring the portfolio to Countrywide and sell it for cash. These independent contractors had no official affiliation with Countrywide and therefore were not subject to any of the regulatory standards by

which Countrywide had to abide. They would falsify employment records and use a variety of other techniques to qualify individuals for loans, regardless of the reality of their financial situations. They were paid a flat rate fee, and were not incentivized to care whether the loan would ever function as a performing long-term asset.<sup>47</sup>

Utilizing this strategy, Countrywide began to dominate the traditional and subprime mortgage marketplace once again. The tactics employed by Countrywide contractors were not limited to these independent entities. A former colleague who asked that I did not use his name, and former loan origination officer for Countrywide financial, confirmed in an interview with me in November of 2013 that the internal commission for originating a subprime loan was higher than a loan that possessed a standard interest rate. The profits associated with subprime loans led to even more mutations, bringing a slew of new financial products to the mainstream marketplace. The most common was the adjustable rate mortgage, which had been around since 1984. This product took on various new forms, and sought to bring in borrowers attracted by a low interest rate. Often times they were never even informed that at the end of the first term of the loan, normally one, three, or five years, they could see their interest rate and monthly payment balloon to an unmanageable amount.

“The U.S. ownership rate increased from 64 percent in 1994 to an all-time high peak of 69.2 percent in 2004. The demand helped fuel the rise of housing prices and consumer spending, creating an unheard of increase in home values of 124 percent between 1997 and 2006. Some homeowners took advantage of the increased property values of their home to refinance their homes with lower interest rates and take out second mortgages against the added value to use for consumer spending. In turn, U.S. household debt as a percentage of income rose to 130 percent in 2007, 30 percent higher than the average amount earlier in the decade...The share of subprime mortgages to total originations increased from 9 percent in 1996 to 20 percent in 2006 according to Forbes. Subprime mortgages totaled \$600 billion in

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<sup>47</sup> Greenberg, Richard. "If You Had a Pulse, We Gave You a Loan" *Msnbc.com*. MSNBC, 22 Mar. 2009. Web. <[http://www.nbcnews.com/id/29827248/ns/dateline\\_nbc-the\\_hansen\\_files\\_with\\_chris\\_hansen/](http://www.nbcnews.com/id/29827248/ns/dateline_nbc-the_hansen_files_with_chris_hansen/)>

2006, accounting for approximately one-fifth of the U.S. home loan market. An estimated \$1.3 trillion in subprime loans are outstanding.”<sup>48</sup>

Through a communal mentality among all mainstream lenders, motivated by the success of companies like Countrywide, the subprime market boomed. Enormous sums of money were being made, fueling the exponential and artificial values created by the lending products they were selling. Lenders were willing to keep pushing the boundaries of sanity due to the lack of accountability that the secondary marketplace created.

During my time working for The National Groups, I had a manager named Erica Tigrette who worked as a mortgage broker and originator in San Diego, California from 2005-2007. She was nicknamed “Jesus” because of the unearthly origination volume within her brokerage. She routinely made over \$15,000 a week in commissions. Given that her commissions averaged between \$700-\$1200 per deal, output was clearly the focus of this system. She openly admits to performing fraudulent employment verification and debt-to-income ratios for borrowers on a daily basis. Her rational was common, stating “this was standard procedure at that time.” Of course, this progression was unsustainable as individuals and families who could have never afforded to buy a home were suddenly prequalified to take on debt that their incomes could never possibly repay.<sup>49</sup>

During this selling frenzy, a variety of studies show that these subprime mortgage products were disproportionately marketed and sold to minority populations. A 2007 New York Times article shows that “Minority communities whose financing needs were starved decades ago because of redlining — banks’ refusal to offer loans or other services

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<sup>48</sup> Katalina M. Bianco, J.D., “The Subprime Lending Crisis: Causes and Effect of the Mortgage Meltdown.” *CCH Federal Banking Law Reporter. CCH Mortgage Compliance Guide and Bank Digest*. Page 9

<sup>49</sup> Interview with Erica Tigrette. Closing Manager at Total Mortgage Services. January 2014

in minority areas — are now singled out for high-cost, high-risk mortgages in a kind of reverse redlining.”<sup>50</sup> Low income minority populations, along with all racial groups living below the poverty line, found subprime lending products attractive due the access provided by the low underwriting parameters and minimal down payments to their own piece of the American dream of homeownership. All decisions surrounding the home are inherently emotional, and certainly some of the blame lies with financially irresponsible borrowers. Yet one of the more disturbing aspects of the racial element of subprime lending is the use of similar strategic targeting across the socio-economic scale.

“For example, 24 percent of non-Hispanic white borrowers earning \$125,000 to \$150,000 took out a subprime mortgage in 2006, compared with 52 percent of Hispanics and 63 percent of non-Hispanic blacks in the same income range. For borrowers earning \$150,000 to \$250,000, the rate of subprime loans was 20 percent for whites, 50 percent for Hispanics and 62 percent for blacks. That analysis looked at all mortgages reported to the federal government, not just those issued by companies identified as subprime lenders.”<sup>51</sup>

While the targeting of low-income individuals along racial lines is a trending aspect of American financial history, it is surprising to see that even high-income members of the Hispanic and African American populations received subprime lending products at significantly increased levels. Presuming that these borrowers were more financially savvy than their low-income counterparts reinforces how deceptively and incompletely these products were described during their sale.

During the early 2000’s, Mozilo transferred the strategy of market dominance from his Class A lending days into the subprime arm of his organization. This led to massive increases in the number of subprime originations. In theory, most of this portfolio was to be sold on the secondary market; however, these subprime originations

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<sup>50</sup> Fernandez, Manny. "Study Finds Disparities in Mortgages by Race." *The New York Times*. The New York Times, 14 Oct. 2007.

<sup>51</sup> Ibid.



would lead to the Countrywide's inevitable insolvency. As financial organizations and economic theorists began to recognize the impending mortgage crisis, secondary markets closed the floodgates. Countrywide was faced with a massive liquidity crisis. Since the company could no longer sell its subprime loans on the secondary market, they were forced to keep them in their internal portfolio. While attempting a swift and drastic change back to strictly conforming originations, the risk and default in their subprime origination portfolio and the general weakness of the housing market led to their financial demise and acquisition by Bank of America in 2008.<sup>52</sup>

The stories of Beneficial and Countrywide are mere pieces of an incredibly complex story filled with collateralized debt obligations, credit default swaps and the massive distribution of securitized bundles of subprime mortgage-backed junk bond assets to pension investment funds, individual investors and various other commercial investment firms and banks. According to Corelogic, one of the largest real estate data companies in the country, there have been approximately 4.9 million completed foreclosures nationally since the financial crisis began in September 2008.<sup>53</sup>

Unfortunately, this is just the tip of the iceberg, as reported in *Foreign Affairs*:

“Americans have lost one-quarter of their net worth in just a year and a half, since June 30, 2007, and the trend continues. Americans' largest single asset is the equity in their homes. Total home equity in the United States, which was valued at \$13 trillion at its peak in 2006, had dropped to \$8.8 trillion by mid-2008 and was still falling in late 2008. Total retirement assets, Americans' second-largest household asset, dropped by 22 percent, from \$10.3 trillion in 2006 to \$8 trillion in mid-2008. During the same period, savings and investment assets (apart from

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<sup>52</sup> Morgenson, Gretchen. "Inside the Countrywide Lending Spree." *The New York Times*. The New York Times, 25 Aug. 2007. Web.

<[http://www.nytimes.com/2007/08/26/business/yourmoney/26country.html?pagewanted=all&\\_r=0](http://www.nytimes.com/2007/08/26/business/yourmoney/26country.html?pagewanted=all&_r=0)>.

<sup>53</sup> Swanson, Jann. "Shadow Inventory Quickly Evaporating." *Mortgage News Daily*. 3 Jan. 2014.

<[http://www.mortgagenewsdaily.com/04032014\\_corelogic\\_foreclosures.asp](http://www.mortgagenewsdaily.com/04032014_corelogic_foreclosures.asp)>.

retirement savings) lost \$1.2 trillion and pension assets lost \$1.3 trillion. Taken together, these losses total a staggering \$8.3 trillion”<sup>54</sup>

These gambles with the home, the cornerstone of many Americans’ wealth, sent ripple effects throughout the economic marketplace. As a result of the chaotic deregulation of the traditional housing market and mutation of traditional risk averse lending into a free-for-all bazaar obsessed with short-term gain at the expense of long-term validity, Americans still find themselves paying the price for the greed of men like Angelo Mozilo. The history of subprime lending and the role it played in a national economic crisis still linger. This legacy is a fundamental challenge to the economic and cultural theories of free market as a self-regulator and the triumph of responsible securitization over greed. It seems to have the exact opposite social impact that Freidman predicted, creating a direct correlation between financial de-regulation and the weakening of our economy.

Much like other cultural subjugations that have occurred over America’s history, subprime lending’s parlay into a national crisis was endemic of much larger structural and systemic problems. Indeed, the roots of subprime could not be farther from the grandeur and excess of the transnational hybrid investment banks of today. While it is difficult to make the conceptual leap between predatory micro-loans and the subprime housing crisis, the progression is born out in the historical legacy. Indeed, there are often two spheres of commerce involved in economic operations that take hold in a marketplace. First, there is the small-scale proprietor. These companies carve out localized niches, and focus their energies on becoming extensively knowledgeable within

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<sup>54</sup> Altman, Roger C. "The Great Crash, 2008: The Geopolitical Setback for the West" *Foreign Affairs*. The Council on Foreign Relations, 27 Feb. 2009. <http://www.foreignaffairs.com/articles/63714/roger-c-altman/the-great-crash-2008>

their areas of expertise. While moral justification is not required in the capitalistic framework, the average employee in these local institutions subscribes to the idea that the moral implications do not outweigh personal economic survival. The second sphere is representative of larger scale thought and implementation. With subprime, all it took was the large financial players' recognition of the profit potential in the work of a small time proprietor's niche marketplace. It is through the scaled transfusion of this model to a nationwide marketplace that the dangers of subprime lending are realized. When money is flowing like it did during this time, otherwise savvy financial institutions subscribe to the mentality that short-term profits are more significant than long-term economic viability.

Subprime national history is best understood through the analysis and examination of the large financial players and products that led to our current housing market. However, the daily ramifications and lingering effects are best realized through a local lens. One clear example of the systemic social ramifications of subprime lending's legacy can be found in New Haven. As of July 1, 2012, New Haven's population was 130,741 making it the second largest city in Connecticut.<sup>55</sup> It is the principal municipality for the Greater New Haven area, with a total population of 862,477.<sup>56</sup> New Haven's history as a testing ground for the nationwide policies of Urban Renewal is not exclusive to the large-scale slum clearance and massive private investment made in downtown during the 1950s. As this vision has become reality, a concentration of attention and funding has left the neighborhoods that border the central city in a rapidly deteriorating or

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<sup>55</sup> "Profile of General Population and Housing Characteristics :2010 Demographic Profile Data: New Haven city, Connecticut." U.S. Census Bureau, American Factfinder. Retrieved September 26, 2012.

<sup>56</sup> "Profile of General Population and Housing Characteristics :2010 Demographic Profile Data: New Haven, Connecticut." U.S. Census Bureau, American Factfinder. Retrieved September 26, 2012.

stagnant state. One of the major managers and owners of this segment of the New Haven's housing stock is Mandy Management LLC.

After my sophomore year at Trinity College, I voluntarily took a year away from campus life and was granted a glimpse into the inner workings and culture of Mandy Management while working as a security guard at one of their commercial properties. When I arrived at 419 Whalley Medical Center in the summer of 2011, I was employed by what I considered a small-time rental property management company. The main offices were located directly across from the main entrance to the medical center where I worked. My prior knowledge of the organization was based on the anecdotes of a friend employed as maintenance staff, who described the company as composed of five other maintenance workers, managed by one senior team leader. They were the only support infrastructure for all of Mandy Management's properties in New Haven and occasionally had to make the trip to Waterbury, Connecticut to handle various issues at their one building in that city. Many of my friend's colleagues in the maintenance department were undocumented workers, whose salaries were likely near or below his hourly wage of eleven dollars. For my role, I earned nine dollars an hour and worked fifty hours a week. While I do not know the senior maintenance team leader's salary, he used to bemoan his status as on-call twenty-four hours a day, seven days a week, three hundred and sixty-five days per year.

The clientele I encountered were primarily people attending the various medical offices located in the four-story office building. One outlier was the office of Sherriff Lonnie Barnes Jr. Part of my duty as security guard was to transport documents across the street from Mandy Management's main offices to Sheriff Barnes. I thought of this

task as nothing more than a nuisance at the time, as it was one of the only responsibilities associated with my job. After leaving and learning that a county sheriff officiates eviction orders, I realized that every piece of paper I transported was legal documentation that forced someone from their rental property. Mandy Management has a long history with Sheriff Barnes, and had strategically relocated him to their building 5 years earlier. In hindsight, it is notable that a property management company requires the services of a Marshall with such frequency.

Mandy Management handles properties that house primarily low-income tenants. Almost all of these tenants live below the poverty line and are subject to the associated social consequences. Pride of ownership is rare among residents of Mandy rental properties and the pricing of these units, coupled with the company's low application standards, attract conventionally unattractive tenants. Some of the tenants are young, while almost all are living paycheck to paycheck and/or significantly below the poverty line. Within this demographic, symptomatic extensions of their poverty in the form of drug abuse and other issues are common. These realities, coupled with a company disregard for the preservation of their buildings, leads to a compounding of the physical conditions within these properties. Often, evicted tenants destroy their apartments as they leave, and Mandy Management is rarely keen to facilitate repairs beyond the façade necessary to attract a new tenant and pass Livable City Initiative inspector minimum standards.

Mandy Management's executives, property managers and acquisition specialists are all members of the ultra-orthodox Jewish sect Chabad, an extremely insular religious community that dominates this sector of the housing marketplace. Pike International,

Mandy's leading competitor, is also a big player in the low-income rental space and is also led by members of the Chabad community. As a Jewish man, it was presumed that I could understand and properly communicate with the upper management within the organization. They treated me differently from the other employees, inviting me to card games, drinks and Shabbat dinners outside of work. While attending weekend activities with the senior members of the Mandy Management team during my year of employment, we were often joined by the very same inspectors responsible for upholding the City standards for rental property conditions.

My immediate boss and the head property manager for New Haven's portfolio was Mendy Edelkopf. Standing about five foot eight, with a medium build and a traditionally thick Chabad beard, Edelkopf is a fiery personality. When not yelling into the receiver of his cell phone, he is likely in the process of receiving another inbound call from a tenant, contractor, investor or his boss. He has a reputation for hitting the pavement, knocking on the doors of delinquent renters in an effort to avoid the eviction process. The eviction is both a hassle and momentary lapse in the Mandy model of maintaining the presence of "bodies" in their buildings. As long as there is no vacancy, the company continues to receive the state-subsidized section-8 public assistance rental checks that most of their tenants utilize. Edelkopf's attitude and persistence plays a large role in Mandy Management success. He has an astonishing work ethic and is a relentless negotiator. I witnessed him talking contractors into deals for half of their initial asking price. Part of Edelkopf's leverage in these situations comes from the company's use of unlicensed contractors for renovations and other work. These individuals have decreased employment options and rely on organization like Mandy Management that are willing to

utilize their labor due to reduced cost. While often just as skilled as mainstream counterparts, these contractors do not have access to the marketplace for conventional plumbing, carpentry, asbestos removal and construction jobs.

Edelkopf's job revolves around a constant adherence to keeping property management overhead to a minimum. This obsessive devotion to maintaining low costs results in the ability to redistribute capital for the sole purpose of expansion. During my time as an employee, I saw the company undergo a massive influx of new inventory. Every other day brought stories of a new building they had just purchased and the great deal they had negotiated for it. This model allowed them to carve out an impressive niche in the local low-income rental market, with low overhead and high profit margins. At the end of my first workweek, I saw a new face in the office. When I asked the secretary who this new man was, she informed me that he was the "big, big boss." This man turned out to be Menachem Gurevitch, a New York City developer, advisory team lead at Netz and Mandy Edelkopf's father-in-law. Mandy Management is a subsidiary of Netz, a company publicly traded on the Tel Aviv stock exchange.

After Edelkopf married his daughter, Gurevitch left the daily operations at Mandy Management in his hands and shifted his focus back to other business ventures in New York City and Tel Aviv. As Mandy Management's share of the New Haven housing market grew, especially in the wake of the housing crisis, Gurevitch saw an opportunity to scale the model. While always peripherally involved, he saw how Edelkopf was able to grow the company through acquisitions. Using his connections and the capital and connections from Netz, he brought in outside investors who helped facilitate the massive purchasing spree. Gurevitch's vision was simple: he utilized the majority of the assets

that came from rental checks, coupled with Netz capital and investor funds, as means of purchasing every building that fell into foreclosure or went up for sale in the area.

Gurevitch and Edelkopf took advantage of the housing climate and buyers' market created by the lingering effects of the recession and housing crisis. Via this strategy, Mandy Management was able to secure significant portions of the available low-income rental properties that fell into the foreclosure or went up for sale in the wake of the housing crisis between 2008-2011. The company quickly became one of a few monopoly stakeholders in this subset of the local housing market. Unfortunately for renters looking for affordable housing, poor conditions and service were commonplace in Mandy Management properties. Towards the end of my time working with the company, business exploded. By my last month, the numbers grew daily. The original staff of six full-time maintenance men had rapidly grown to 35+ workers showing up at the office each morning.

Today, Netz's official website describes its national housing portfolio this way:

"With more than 1300 rental residential and commercial units in the United States, valued at approximately 100M US Dollars, and intents on extending this area. The assets are located in various cities throughout the United States including Miami Beach Florida, Toledo, Ohio, New London, and Connecticut with over 600 units adjacent to Yale University in New Haven, CT. The Company owns and operates its own management company with headquarters in New Haven, CT."<sup>57</sup>

Much of this expansion is a direct result of Menachem Gurevitch's increased involvement in scaling operations. The national expansion employs the same strategies, based on Edelkopf's frequent boasts, the most impressive of which was on a 326-unit multi-family garden apartment property in Deerfield Run, Ohio. Due to the variety of funding methods and sources used in the Mandy Management division of Netz

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<sup>57</sup> Netz Official Website. "Rental Real Estate."



acquisitions, it is difficult to create a comprehensive portfolio for their assets as an outside observer. They utilize an intricate system of shell Limited Liability Companies for all the new residential properties they acquire in New Haven and beyond.

Currently, Mandy Management has over 50 vacant units listed for lease in New Haven and West Haven. The company bills itself as “Modern, Affordable Housing and Apartment. Its What We Do.”<sup>58</sup> The website goes on to say: “With properties throughout New England, such as New Haven, Waterbury, Bridgeport and New London, we are sure to have the place that's right for you. Whether it's for your home or commercial needs, our great staff is waiting for your call and is ready to assist you in any way possible.” Yet online reviews, City records and my person experience reveal a different perspective. During my employment, I spoke with many tenants and witnessed the forced removal and constant complaints of a variety of extremely unhappy contractors and tenants alike. A sample of online reviews that echo the same general sentiment include: “Mandy Management says that they are #1 for apartment rentals in new haven, they should be known as the #1 slum lord in new haven” and “their only concern is taking our money and showing no concern for the elderly and handicap that live in this building. They have made no headway on getting anything fixed.”<sup>59</sup> Consumer sentiment about Mandy Management is perhaps best summarized by another reviewer, who states: “They make millions on their properties across the Eastern seaboard by providing slum-quality apartments to anyone they can trick into a lease. Be careful. A one year lease can drag by slowly in a hell-hole.”

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<sup>58</sup> Mandy Management. Official Website, Homepage. <http://mandy-management.com/index.html>.

<sup>59</sup> Mandy Management’s Profile on Yellow Pages online. <http://www.yellowpages.com/new-haven-ct/mip/mandy-management-457474666>.

While one can certainly argue that the comments of these former and current tenants are nothing more than the rants of a few biased people, the stance taken by the City's anti-bligh agency, Livable City Initiative (LCI), tells a similar story. At the beginning of 2013, LCI had applications pending with the state housing court based on inspections from 10 apartments in the 44-unit, 1523 Chapel Street Complex called Winthrop Terrace. These inspections cited rampant rodents, leaking ceilings, broken and "ill-fitting" doors and cracked walls. Subsequent inspections found the repairs hadn't been made and the building's elevator was out of commission for months during 2012.<sup>60</sup> The article goes on to report: "The City has for years applied for such warrants when landlords don't make repairs. Cops don't go handcuff the landlords. The landlords don't face jail time. Rather they show up in court for a hearing on misdemeanor charges of violating the housing code."<sup>61</sup> Despite active searching, there is nothing further of note regarding this particular litigation and LCI has faced criticism from community activists and local political leaders for being too soft on landlords and not going far enough in their effort to maintain quality rental standards and institute effective blight prevention protocol.

In addition, LCI is responsible for monitoring Netz, the funding source and owner of one of the fastest-growing property managers in town. Netz is Menachem Gurevitch's main venture and I often saw him showcasing the building at 419 Whalley Avenue to investors. While financial reports for Netz are more readily accessible than those of Mandy Management, they are all published in Hebrew. According to these documents,

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<sup>60</sup> Bass, Paul. "City Files For Landlord's Arrest." *New Haven Independent*. The New Haven Independent, 23 Mar. 2013. Web.

<[http://www.newhavenindependent.org/index.php/archives/entry/city\\_files\\_for\\_landlords\\_arrest/](http://www.newhavenindependent.org/index.php/archives/entry/city_files_for_landlords_arrest/)>.

<sup>61</sup> Ibid.

Mandy Management, which falls under the Netz United States LTD, makes up 42.58% of the company. Netz trades on the Tel Aviv stock exchange at 110 NIS a share, or approximately \$31.65. LCI shows special concern for the company as “many of their acquisitions have included hovels abandoned by the City’s most notorious slumlords, Michael Steinbach and Janet Dawson. Deputy LCI chief Rafael Ramos reports: ‘They’re acquiring properties that need a lot of work’ and more staffers on the job.”<sup>62</sup> These dilapidated and poorly maintained properties are the foundation for Mandy Management’s rental portfolio.

Steinback, Dawson and their company, Apple Management, are allegedly infamous slumlords and purveyors of mortgage fraud all across the City. In an attempt to avoid pending litigation, Apple Management was disbanded and Steinback and Dawson moved to Florida back in the early 2000’s, leaving their properties abandoned while still collecting Section-8 checks and awaiting imminent foreclosure.<sup>63</sup> The relevant aspect of this tale lies in the fact that a large portion of Mandy Management’s current portfolio comes directly from that previously held by Dawson, Steinback, or Apple Management. While some of their properties were acquired during foreclosure sales, many of these properties’ ownership records show that these two entities dealt with one another directly through substantial transactional volume. While we may never know the true nature of the connection between the Apple and Mandy Management housing portfolios, certainly both organizations provided a low level of service and garnered negative reputations.

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<sup>62</sup> Ibid.

<sup>63</sup> Satija, Neena. "Slumlords Stiff Banks—& Rake In Sec. 8 Bucks." *New Haven Independent*. N.p., 2 Nov. 2011. Web.  
<[http://www.newhavenindependent.org/index.php/archives/entry/government\\_paying\\_slumlords\\_for\\_for/](http://www.newhavenindependent.org/index.php/archives/entry/government_paying_slumlords_for_for/).

While the moral and business integrity of an organization like Mandy Management can be called into question, its existence and meaning are far more important. As a business, this company is merely reacting to an opportunity within the marketplace resulting from a vacuum in the housing resources and services available to low income populations. They are attempting to streamline and grow a management company with acquisitions and a client niche in the neighborhood subsections that have been underserved for much of New Haven's recent urban history. Unfortunately, Mandy Management is directly exacerbating the situation by ignoring the dilapidated condition of their buildings and units, as well as profiting off of the disenfranchisement of others. As their portfolio grows, they become more influential and also more detrimental. Yet the services that they provide only function under the urban housing conditions created by New Haven's historical legacy and resulting structural neighborhood makeup. The lack of other affordable options in underserved sections of New Haven's most vulnerable neighborhoods is the reason for their financial success.

The structural parallels between the history of subprime and the development of Mandy Management are strikingly similar. While the history of subprime ended with a national economic catastrophe, Mandy Management's rise has played an integral role in shaping various neighborhoods in New Haven. The implications of a monopolized, underserved housing stock for the most subjugated subsection of the population results in a systemic compounding of a variety of social issues. There are also parallels found in Beneficial Financial's structural parlay into Countrywide's future strategies and Mandy Management's affiliation with Netz. The recognition and scaling of profitable niche models in both instances shows how this progression combines localized skill sets with

substantial financing to create massive profits. Subprime's legacy of immense risk for colossal reward ended up crippling the economic integrity of a country while Mandy Management's expansion and opportunistic navigation of the crisis has played a direct role in deteriorating neighborhood housing stock in the pursuit of profit. This profit has been acquired on the backs of New Haven's most economically vulnerable populations.

### 3. Newhallville and The Hill: Two Modern Case Studies

The devastating fallout of the subprime mortgage crisis was all encompassing for many different kinds of people. While it crippled families and individuals across the socio-economic spectrum, its effects on those at the bottom were exacerbated due to the absence of a financial safety network. These families and individuals attempting to ascend from poverty had most, if not all, of their wealth embedded in a home taken away by foreclosure. This process not only crippled credit scores and left people without the ability to borrow further, it also liquidated whatever assets had originally been invested in the home. As the economic downturn permeated its way through cities and neighborhoods, quality job numbers decreased and many lower income neighborhoods quickly became foreclosure wastelands.

As housing values plummeted, many homes were suddenly valued at a fraction of the unpaid balance remaining on the original mortgage loan. This situation, called being “underwater,” means that a borrower owes *more* than the value of his or her home. This widespread phenomenon led to many people simply walking away from properties all together. According to a study conducted by the Federal Reserve on behalf of the Mortgage Initiatives Coordinating Committee in 2008, utilizing the origination data of First American, nearly 36% of their subprime originations had a loan to value ratio of greater than 90%.<sup>64</sup> The other frightening statistic from this study was the use of Prepayment Plan Penalties (PPP’s) during the first 30 months of a loan term. Employed at a rate 72.6%, these mortgage clauses made subprime originations incredibly lucrative as the borrower could not pay down the principal with a lump sum of cash unless they

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<sup>64</sup> Fame, Scott, Lehnert, Andreas and Prescott, Ned. “A Snapshot of Mortgage Conditions with an Emphasis on Subprime Mortgage Performance.” Federal Reserve Mortgage Initiatives Coordinating Committee. August 27<sup>th</sup>, 2008.

wanted to receive a financial penalty. For many borrowers, their relative personal investment was small and foreclosure was often a financial inevitability. With the unregulated nature of originations at that time, most low-income borrowers were placing down payments that represented less than five percent of the amount borrowed. During the height of the housing boom, some originators required no down payment of any kind. Despite the loan to value ratios or the relatively low value of a down payment when compared with the origination size, these initial investments still represented a substantial portion of a low-income borrower's assets.

In many states, foreclosures are slow and poorly executed processes. As I experienced while working for The National Groups, a default-servicing mortgage company, years often elapse between the day a borrower defaults on his or her mortgage payment and the day when the federal government, lender, bank or municipality actually reclaiming legal right to the property. The implications of this pattern are multifaceted and create the type of domino effect seen with blockbusting and the racial integration of American neighborhoods during the civil rights movement. As one house in a neighborhood falls into foreclosure, it is left vacant and secured while the organization waits out foreclosure proceedings. During this wait, organizations often secure properties by boarding up windows and other openings and placing coded padlocks on all doors. The vacant property often becomes blighted due to poor upkeep. This unattractive presence further brings down the value of the whole neighborhood, acting as a deterrent to potential renters, homeowners and businesses. The remaining residents see the valuations on their own homes sink even lower, leading to strategic default or attempted short sales to avoid further equity loss in an ever-worsening housing marketplace. In

addition, the financial reality is that most neighborhoods are broken down along economic lines, which leads to trending foreclosures in certain areas. This is due to the fact that the same market forces and weakened local job strength affect many residents in a similar fashion. While these effects are not exclusive to those living near the poverty line, low-income neighborhoods are the most vulnerable as financial realities leave the housing stock susceptible to long-term divestment, degradation and other detrimental market forces.

Once a neighborhood has fallen into widespread foreclosure, it begins to draw the attention of unwanted investment. While Mandy Management is the largest proprietor of low-value acquisitions in the local New Haven market, there are a variety of other investors who employ slightly different methods to national portfolios. This type of investor is often located out-of-state and seeks out properties that can be purchased at extreme discount due to their undesirable location, distressed condition and low market valuation. Often, these are the types of properties that even Mandy Management is not interested in adding to their collection. These sales are often transacted through the Real Estate Owned (REO) departments of banks after the property is deeded over in foreclosure. They can also be purchased through foreclosure auctions, where the deed is awarded to the highest bidder. Both situations can be opportunities for this category of investor to pay next to nothing for housing that lenders, banks or municipalities are just trying to get off their books.

These investors often hold the property, attempting to wait out the market's recovery. While sometimes attempting to fit them out as rental units to cover a portion of the cost, this comes with its own unique set of new problems. Generally these properties



are part of a massive portfolio of similar assets across the country and never receive much individual attention from their actual owners or third party management services. Due to the absentee status of the landlord, they frequently fall into disrepair and lack the necessary grounds upkeep and maintenance required to prevent unwanted squatters and damage from the elements. When a property is rented out, tenants often receive none of the standard services traditionally associated with renting. Any suggestions, complaints, repair requests or other communications fall on deaf ears. These landlord's absentee status is complicated by their general disconnect from the neighborhood dynamics and city that their investment directly influences.

In New Haven's post-housing crisis marketplace, these neighborhoods and the foreclosed properties that fill them are also perfect acquisition sites for companies like Mandy Management. Their proximity and local expertise provide an advantage over absentee competitors, yet their influence is similarly detrimental. During the immediate wake of the crisis and beyond, such companies took advantage of opportunities in numerous ways. Many foreclosed properties were purchased at a discount. After fitting them out as multi-family rentals, they were rented back to the same demographic population that originally defaulted. In these situations, companies like Mandy Management facilitate the supply and generate demand through dominant and often monopolizing presence in these strategically selected housing marketplaces. Mandy Management operates on the assumptions that the vast majority of defaulted borrowers have no other living options aside from cheap rental properties. Newhallville offers an example of this dynamic at work. At the same time, Newhallville has benefitted from the

intervention and acquisition of a local non-profit organization with an opposite approach to the post-foreclosure landscape.

The subprime mortgage crisis is commonly discussed as a national disaster and understood through a purely statistical lens. However, the real effects are best observed at street level. Harding Place and West Division Street are located along the Dixwell corridor of New Haven's Newhallville neighborhood. These two streets, while separated by just a few hundred feet and two rows of housing, tell very different narratives regarding the modern legacy of subprime. The two streets are identical structural mirrors of one another, both anchored by multi-unit rental buildings and lined by a mix of single and multi-family homes. They are also prime examples of the contrasting styles and outcomes that have befallen Newhallville in the wake of the housing crash. The multi-unit properties that reside along the eastern most segments of these streets are both owned and managed by Mandy Management. However, this connection is where their similarities end.

Mandy Management purchased 310 West Division Street for \$105,000 in October of 2012. While not one of the most dilapidated properties in the company's portfolio, this building still stands out on the tree-lined street. The surrounding lot has a dirt yard, littered with trash and cigarette butts. The front façade features an unfinished wooden deck and the whole building sports a fading, light blue coat of paint. The doorbells are labeled with scraps of paper and one of the mailboxes is noticeably askew. This property's condition is commonplace in these neighborhoods and represents Mandy Management's disinterest with anything more than providing the bare minimum necessary to pass city inspection.

Yet the rest of West Division Street offers a very different picture. Pride of ownership is palpable, while newly planted trees, well kept yards and an intricate mosaic of colored trim, walls and doors leave a positive impression on motorists and pedestrians cutting through to the busy Dixwell corridor. All of these elements have become hallmark signs of the presence and work of the non-profit agency Neighborhood Housing Services (NHS). West Division Street is a case study in the success of NHS's "cluster approach". This strategy utilizes localized community support through the acquisition of multiple units in the areas where they work, as an effort to affect change as apposed to simply renovating one house. The odd numbered side of West Division Street looks as if it is a direct transplant from East Rock or Westville, as the residents of these homes maintain their properties with the utmost care. West Division is arguably one of Neighborhood Housing Services' most impressive success stories. They have helped secure financing, provided financial education and assisted residents in their renovated properties to become successful homeowners. Many of these families and individuals are longtime residents and influential community members who have served and lived in Newhallville and the surrounding area for many years. The contrast on West Division Street illustrates the tangible difference in perspective. Where one organization sees potential profit, the other sees an opportunity for growth and rebirth.

Leaving West Division and traveling one block north along Dixwell Avenue puts you directly at the eastern entrance of Harding Place. While direct neighbors, these two streets could easily be located in entirely different cities. The difference in quality and upkeep of the housing stock on Harding Place offers a stark example of foreclosure's effects. The first time I took this short walk, while completing residential neighborhood

evaluation surveys for NHS during my summer internship, the disparity was jarring. There is a noticeable increase in trash on the street, as well as poorly maintained houses and yards. Multiple homes appear to be completely vacant and a few have visible coded lock boxes, a common indicator of foreclosure. Seemingly every other building on the street has a generic “for rent” sign posted. Most of the occupied houses have multiple doorbells, confirming their use as multi-family rentals. Rental ads provide phone numbers for a slew of different management companies and real estate firms. The listings are with little-known firms, such as MIC Properties, MGMT, Real Time Rentals, and Bright Stone Rental Group. Each of these real estate business ventures lacks real brand recognition of significant market presence in Connecticut. Only one of these is connected with relevant local web infrastructure and, after calling all of the numbers listed, only two had enabled voice mailboxes. It is very likely that these properties are owned by the same type of absentee investors discussed at the start of this section.

The vacant status of these properties often attracts vandalism and other more sinister crime. On December 7, 2013, 35 Harding Place was the site of New Haven’s 18<sup>th</sup> homicide of 2013.<sup>65</sup> This is the very same property that I visited during the survey a few months earlier, only to discover a coded padlock adorning the front door. The victim of this crime, a 23-year-old male, was discovered by police and rushed to the Yale-New Haven hospital where he was pronounced dead on arrival. During the initial police response, another 19-year-old man was apprehended trying to flee the scene. While the litigation on this case is still in process, the defendant has apparently changed his story multiple times, settling on the claim that he “forgot the gun was in his hand” and it was

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<sup>65</sup>Scinto, Rich. Man found shot to death: 18th homicide of year discovered in New Haven. The New Haven Register. December 7<sup>th</sup>, 2013. <http://www.nhregister.com/general-news/20131207/man-found-shot-to-death-18th-homicide-of-year-discovered-in-new-haven#.UqYh8XLNNbU.email>

accidentally fired during a play fight.<sup>66</sup> It is presumed that the use of narcotics played a role in this crime, as in the defendant's original story he claimed to have "only heard the shot go off, as he was in the upstairs bedroom lying down and smoking marijuana." The current charge is second-degree manslaughter.

As mentioned before, Harding Place is also anchored by a multi-unit rental property: 3 Harding Place. During the same residential neighborhood evaluation survey, I first encountered this property and spoke with one of its residents, Trisha Krenshaw. Though the property is zoned as six individual condominiums, it is managed as one multi-unit rental property. Trisha was the last remaining resident in the building and lived in unit 3. She told my survey group about the slow deterioration of the building over the last few years and the decreasing presence of the landlord. She also mentioned that she believed it was currently for sale and a group of Jewish men with large beards had come by and toured the building and her unit a few weeks prior. According to public records, the property was originally owned by Janet Dawson and changed hands multiple times between 2005 and 2011. Since May 14, 2012, the property had been owned by SA Challenger Inc, purchased at a sale price of zero dollars. This likely means it was either acquired through a cash transaction or a foreclosure auction.

Trisha went on to discuss how much she had loved her apartment when she first moved it, describing a space with natural light and spacious floor plan all at an affordable price. This connection was the reason she lingered in the building, despite the significantly deterioration of conditions. She informed us that she recently found a new apartment down the street through Mandy Management and was moving out soon. After

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<sup>66</sup> Bass, Paul. "'I Forgot I Had The Gun In My Hand'." *New Haven Independent*. 9 Dec. 2013. Web. <[http://www.newhavenindependent.org/index.php/archives/entry/man\\_shot\\_dead\\_in\\_newhallville1/](http://www.newhavenindependent.org/index.php/archives/entry/man_shot_dead_in_newhallville1/)>.

returning back to the offices of Neighborhood Housing Services at the conclusion of our surveying, the team began to discuss the potential for Harding Place as the anchor for a new cluster. The location was perfect, as property values were low and fit within the budgetary parameters for new acquisitions. It was also a strong candidate given the existing support network provided by the close proximity to West Division Street.

Harding Place also represented the ideal conditions for NHS to parlay into a new venture involving the inclusion of rental housing in a cluster. It could be the perfect cornerstone and testing ground for expanding the success of West Division Street further into Newhallville and honing a new model that could be applied throughout low-income neighborhoods in the City. While homeownership is the ideal, the logical progression for Neighborhood Housing Services' expansion is the ability to offer access to high quality, affordable rental housing as a supplemental service in their clusters.

The organization was so enthused by this idea that I was told they would even overpay to acquire 3 Harding Place. After hearing this, I worked to find the owner and facilitate the acquisition. Yet the listed owner, SA Challenger Inc, appeared to be yet another shell organization with no tangible online or brick and mortar infrastructure. I called local realtors looking for information on who to contact to get more information and set up a showing at the building. No one knew the listing agent or if the building was even on the market. I knew that Mandy Management would likely be interested and that time was of the essence. After making no substantive progress on my own, I asked my boss at The National Groups for a favor. He agreed to look into the property further and put in a call to a few of the more prominent local foreclosure attorneys in the area. In the meantime, I ventured down to the County Clerk's office, where I pulled the property

records on the building. It was within these documents that I began to see the name US Bank NA come up. I called them, but no one would provide any information, given that the property was in legal limbo due to pending foreclosure action. Finally my boss at The National Groups put me in contact with a friend within US Bank NA's REO department. After finally connecting with the rep, I learned that the property had been sold a mere three days prior to our phone call. A few weeks later, all the units were listed for rent on Mandy Management's website.

Mandy Management's acquisition of 3 Harding Place means that it will likely remain in its current condition for the foreseeable future. The building will not receive the types of structural and aesthetic repairs necessary to bring it up to a quality livable standard. This stands in stark contrast to the rehabilitation and beautification that NHS would have undertaken before renting the property. This event was an unfortunate and detrimental step back for a street that has already been subject to substantial decline as a result of the foreclosure crisis.

During the rest of my surveying work, I spoke with a variety of residents who shared similar sentiments regarding Newhallville's current conditions. One particular conversation from Harding Place stands out. After knocking on a door, my survey group was confronted by a middle-aged African American woman. Our request for her opinions, experiences and help filling out the resident survey seemed to hit a nerve. She began to scream that no one cared about this area and filling out a survey was not going to do anything except waste her time. After trying a few other doors and getting no responses, one of the members of my team pointed out a young girl picking up trash along the side of the road. He suggested we help her out and then head back to the office.

The young girl was happy to have our help with her “chore” and gave each of us a rubber glove. She was one glove short and instructed us to wait while she went to get more. To our surprise, she ran down Harding to the home of the woman who had irately sent us away a few minutes prior.

The girl returned and we spent thirty minutes collecting garbage in plastic bags. After finishing, we brought what we had collected to a large trashcan located outside of the woman’s home. She came out and thanked us for the help, telling us that her granddaughter picks up the street voluntarily and that she appreciated us taking the time to help. Her demeanor softened and she apologized for the circumstances of our earlier meeting, explaining that she was just frustrated and demoralized with the area’s deterioration. She told us that she had lived in Newhallville for a long time and that for many of those years it was a great place to raise a family and buy a home, possessing a strong sense of community. She also said that many of her friends and prior neighbors had begun to leave the area and move to other cities in Connecticut or the Southern US. The elderly woman blamed this exodus on the downward trend and changing dynamics in the neighborhood, reminiscing that many of those who left had lived near her for the majority of their lives. From her perspective, things changed significantly over the past few years and violence had become a real problem in the area.

In many ways, these two parallel streets offer micro-visions for New Haven’s future urban condition. They symbolize two divergent paths in the modern legacy of urban development, which prioritize fundamentally different ideologies and value systems. Local leaders face a decision relating to whether to allow furthering of the status quo or the employment of an active strategy to diminish the current disparities



exacerbated by decisions and actors within New Haven's history. The actions taken by Neighborhood Housing Services and their work on West Division Street reinforce the fact that it is possible to counteract the effects of the housing crisis through revitalization and investment in people. With this strategy, they have been able to elevate conditions in many areas, while still maintaining the socio-economic and racial integrity of the existing community. As NHS's work continues, they may someday be able to motivate Mandy Management through market forces by providing rental alternatives that raise low-income tenant's expectations in currently distressed areas.

The West Division model can serve as vehicle for correcting past strategies, which only served the needs of specific populations and represented shortsighted visions. Instead of echoing our past failures, the City can use the localized and expertly executed "cluster approach" utilized by NHS as a scalable model. The downward housing trends found in the wake of subprime can be reversed if the right models and plans are developed, supported and recognized for their long-term potential. Just as Logue sought to "plan with people" and create systemic change through harnessing the spending power of one segment of the population, the City and its leaders can change the discourse surrounding meaningful development. A synthesized cluster approach is just as scalable and replicatable as any other business model.

In order to forge a different path forward, it is critical to understand New Haven's history of unintended consequences, as well as the impacts of wider market forces. While there are a variety of organizations employing plans to help change the City for the better, Neighborhood Housing Services stands out for the ways in which it learns from the New Haven's housing history. The "cluster" approach that frames all of its work is grounded

in an understanding of the implication of New Haven's urban history and its strategies are contextualized by the past. Bringing a neighborhood up through this "cluster" strategy is the goal; however, maintaining the cultural, racial and socioeconomic integrity of the area is also recognized as the only way to facilitate the self-sufficiency at the core of long-term viability. Gentrification is a short-term strategy that merely displaces problems and people whose underserved status must otherwise be addressed.

On the one hand, attracting business investment, increased public service and a higher quality of life are beneficial to any area. Yet with these changes often come the unintended consequence of driving out previous residents and replacing them with a wholly new population attracted by the modern and amenities of an environment catered to their demographic. As time passes, the area inevitably loses its unique characteristics and reaches a threshold at which the only further progression finds it's ceiling. An artificially attracted population leads to a transient and often cyclical identity, rooted in short-term "trendy" growth. This structure can leave a neighborhood without any of the true long-term potential, character or culture that initially attracted certain residents in the first place.

The ideas central to Neighborhood Housing Services' mission are potentially effective means of shrinking the massive economic disparity and improving living conditions in New Haven's neighborhoods, while avoiding the pitfalls of gentrification. If the City were to create a strategic plan that appropriated funds and services, while also incentivizing non-predatory real estate investment in underserved areas, the larger effects would pay long-term dividends. The City should also take a stance against the predatory and opportunistic practices of low-income landlords. The ideal progression is one in

which commercial real estate enterprise no longer needs to rely on doing business strictly along demographic or economic lines. With widespread support and active decision-making that serves the City as one entity, we could begin to see a variety of positive changes. While this approach should not be limited to the housing marketplace, it is a logical place to test the idea. Housing is unique, as living conditions tend to be key indicators of a variety of other societal conditions.

While there are a plethora of factors that contribute to a family or individual's quality of life, the space where one spends the majority of time has an inextricable impact on how one sees the world and perceives opportunity. While work, school, neighborhood, values, family, and peers all play important roles, home is often at the core of these elements. Physical space is a manifestation of perception, self-valuation and a variety of other factors that do not seem traditionally connected to housing conditions. A simple yet powerful example arises from comparison of the outlook regarding opportunity, assigned societal value, and social mobility for someone living in one of the NHS homes on West Division Street with a resident of Mandy Management's Winthrop Terrace housing complex. The value assigned to condition, pride of ownership and neighborhood makeup shape perception in very strong ways.

While there are instances of abuse from landlords within the system, the larger systemic issues are those of poverty, joblessness, drugs, mental illness and domestic violence. Due to a legacy of racial inequality and urban planning, we find the dilapidated pockets of New Haven populated by a racial makeup of primarily black and brown faces. In the case of Mandy Management, during an interview facilitated by *The New Haven Independent*, we see the pointed outcry of residents and neighbors for Mendy Edelkopf to

take better care of the houses within Newhallville.<sup>67</sup> The suggestions do not end there, as local residential representatives suggest that Edelkopf attempt to bring white faces into the neighborhood.

This misguided, active appeal for the perceived gentrifying effects of a white population is habituated by the realities of New Haven's urban history. Throughout the City's history, the white population's migration has come with development and increased quality of services, infrastructure and commerce. In many ways, this is part of Mandy Management's long-term bet. While they wait out the growth of the upscale market and the steady expansion of its borders, they fully expect their portfolio, described as "600 units adjacent to Yale University" to eventually be worth exponentially more than their original investment. For them, the current property management structure is just a means of recognizing a need in the marketplace and adding short-term profits to a long-term plan. The social impact is that their profits come at the expense of their customers. Their long-term plan becomes more insidious when seen in its full sequence. This company plans to pick up undesirable properties for cheap, pay them off with section-8 rents and then sell and rent them for new levels of profit once gentrification eventually spills over in to the areas that they now dominate.

Based on the City's current plans, it is starting to seem like a worthwhile gamble. As the original vision of Edward Logue and Robert Lee during Urban Renewal has slowly taken shape in New Haven's downtown, the traditional boundaries of this area are being stretched further into existing urban infrastructure. As Yale has grown and their

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<sup>67</sup> Bass, Paul. "Newhallville Confronts A Mega-Landlord." *New Haven Independent*. 6 June 2013. Web. <[http://www.newhavenindependent.org/index.php/archives/entry/mendy\\_meeting/](http://www.newhavenindependent.org/index.php/archives/entry/mendy_meeting/)>.

strategic acquisitions become bolder, their real estate dominance has become a powerful force for change.

For its part, the City appears to have fallen back into patterns similar to those seen during the Urban Renewal movement. While the situation is not identical, City policies continue to prioritize and service the needs of specific subsections of the population first. The development plan for “The Hill to Downtown” city initiative treats the needs of low-income residents as ancillary afterthoughts.<sup>68</sup> Just as the municipal legacy of Logue and Urban Renewal isolated populations like Farnham Courts and created the disparity of wealth we have in the City today, this current plan will further extend the limits and quicken the progression of downtown’s upscale trajectory. The biggest issue with this new plan is displacement. One of its central components is the demolition of Church Street South, a 301-unit section-8 housing development complex, located directly across from New Haven’s main travel hub, Union Train Station. Originally built in 1969, Church Street South has been criticized for its poor upkeep, receiving a rating of 68 out of 100, meaning the conditions fell significantly below Housing and Urban Development standards, during the most recent Housing Quality Standards inspection in September of 2010.<sup>69</sup> While there is no denying that this housing development needs to change, the city’s proposition is hardly a solution.

Currently, the plan for Church Street South includes a full demolition and re-development as mixed-use and mixed income commercial and residential space. This would include housing with retail storefronts, as well as commercial office space, active

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<sup>68</sup> Sanders, Alexandra. "New Haven's Hill-to-Downtown Initiative Looks to Connect Neighborhoods." *New Haven Register Online*, 20 Sept. 2012. Web. <<http://www.nhregister.com/general-news/20120920/new-havens-hill-to-downtown-initiative-looks-to-connect-neighborhoods-poll>>.

<sup>69</sup> Church Street South Apartments. FindTheBest, Consumer Ratings. <http://section-8-housing.findthebest.com/l/3689/Church-Street-South-Apts>.

and passive green space, and a community center with common amenity space and structured parking.<sup>70</sup> The plan is to create between 650 and 750 total units, 70 to 100 of them with 3+ bedrooms. The newly developed units will be mixed income, serving affordable housing needs as well as those of workforce and market rate renters. This all sounds like the diverse and progressive development that could be the core of a citywide cluster strategy. Unfortunately, only 150 of these units will in fact be predetermined as affordable, a label that holds no particular parameters in the final community plan. The plan does specify, however, that 70-80 percent of all the units built will service workforce and market rate renters. Utilizing the statistical scale presented in this plan, between 95 and 210 possible affordable units remain for all of the current residents of Church Street South.

Effectively, just as Richard Lee and Edward Logue's decisions during the 1950s created the underserved neighborhoods that Mandy Management now dominates, City development policies are once again displacing low-income residents into the waiting arms of Mandy Management's distressed, dilapidated and ill-managed housing stock. Claiming that Church Street South should be demolished because of its detrimental conditions is a convenient fallacy, as the City is merely displacing the current residents into different areas where they will continue living in similar conditions. Indeed, between 33% and 66% of the current families that live in Church Street South will be displaced to make way for retail locations, commercial investment and upscale rental-housing stock.

One of the most common arguments against social housing assistance systems is framed through an exclusively economic lens. A recent conversation with a leasing agent

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<sup>70</sup> Economic Development, City of New Haven. Hill to Downtown Community Plan, December 2013. New Haven, Connecticut.

for New Haven's high-rise, downtown rental complex, 360 State Street, turned into a revealing look at the sentiments of middle-class citizens. For her, access to housing is restricted on monetary terms and therefore where you live should be a direct manifestation of your economic status. This viewpoint fails to take into account the cultural, historical and social context and categorization that the marketplace has used to evaluate demographic groups throughout modern history. It also does not incorporate the relative conditions, resources and opportunities provided to these differing groups. Therefore, if you can afford to live in a one bedroom apartment that costs \$1200 or more, you are somehow deserving of the amenities, local infrastructure, commerce and services that come with it.

Just as Urban Renewal sought to attract investment for areas that would serve upper and middle class populations, the same strategic attention can be applied to lower income and poverty-stricken populations and neighborhoods. These areas are participants in local commerce and require goods and services just like any other population. Residents of these areas represent opportunity for potential businesses to cater to their needs. With Church Street South, the City should provide, as a bare minimum, 300 affordable rental units to replace those lost through the original demolition. To redevelop an area and housing complex considered dilapidated by replacing the population assigns blame and a punishment due to the conditions they the population has been subject to for generations.

Just as Yale has slowly unfolded a master plan that has and will shape the City to its liking, there must be a re-evaluation and re-incorporation of other sections of socio-economic spectrum into this decision-making process. When given the choice, the City

must take the West Division Street path instead of the City's legacy of exclusion, displacement and isolation found on streets like Harding Place and now threatened for the Church Street Project. This City's current so-called integrated social solutions are too small to create any meaningful change. They look and sound much better than their actual social benefit, and function better as talking points than as a measure of instituting meaningful change. The reality is that even receiving a section-8 voucher can take years of sitting on a housing authority waiting list. If you are lucky enough to receive the subsidy, you have to win the lottery all over again to end receiving placement at a building like 360 State Street. This further compounds the absurdity of the Church Street South development and presents a challenge for the future of New Haven.



## Conclusion

The widespread legacy of subprime challenges Milton Friedman's claim that the free-market possesses the innate ability to self-regulate while serving all facets of the economic spectrum. Indeed, it seems that without regulatory oversight, a commitment to transparency and open access for individuals of all backgrounds, the economic marketplace tends to grow where the profit margins are highest. The result is the shortsighted greed that lies at the core of this crisis. Predatory lending practices executed in pursuit of massive profits resulted in devastating economic and social consequences. Economic success produced through the manipulation of disenfranchised populations destabilized the national marketplace and brought the country and economy to the brink of oblivion.

Consequently, the post-foreclosure landscape comes with lingering repercussions and present new opportunities for the continued exploitation of the very same populations that were initially crippled. From the dominant and controlling market presence of companies like Mandy Management to the long-term vacancies created by out-of-state investors, the effects of a foreclosure only begin at the time of default. As investors and property managers defer maintenance and otherwise ignore the possibility of capital improvements to their properties due to low tenant expectations, a neighborhood can find itself in a cycle of blight, dilapidation and poverty. Historically framed by the structural foundations of Urban Renewal, municipal leaders must fundamentally re-evaluate the cultural values assigned to various populations and neighborhoods.

Housing markets are directly affected by the interplay between housing types. Industrial and office spaces are the core of neighborhoods, as they provide local access to

employment and strengthen communal roots. With the presence of employers and industry, residential property is the next to follow and provides a consumer base for the final layer of the housing equation: retail. On the local level, retail refers to everything from neighborhood businesses and restaurants to nationwide chains. These elements have a symbiotic relationship. When one component is subtracted from the equation, it can throw a neighborhood into disarray. A weak housing market makes it nearly impossible for a population to build wealth, as a house and its value tend to be at the core of financial security. Without this key ingredient, the surrounding area cannot thrive or grow. While the erosion and mismanagement of housing stock is the reality for many neighborhoods across the country, this trajectory is not the only option.

The potential for change does exist and manifests itself on a daily basis in the work of non-profits like Neighborhood Housing Services of New Haven. NHS and similar organizations across the country employ strategies that combat and reverse blight through strategic planning and localized tactics like the “cluster approach.” While many people consider gentrification and demographic transformation to be the only certain means of effective revitalization, NHS disproves this theory with the effects seen on West Division Street in Newhallville. If New Haven’s local leaders were to adopt the NHS strategy to combat blight, there is a real potential for systemic change. This process originates from the empowerment and reassignment of cultural worth currently allocated to New Haven’s most vulnerable communities. The housing crisis illustrates how the loss of economic traction in certain communities impacts populations that would otherwise consider themselves wholly separate. If City leaders were to support and serve city

residents and neighborhoods equitably, we might begin to see the gradual renewal of the urban space through the dissipation of a history of disparity.

## Figures

Figure 1.1: Crime Rate Statistics 1999-2011. Source: City-Data.com.

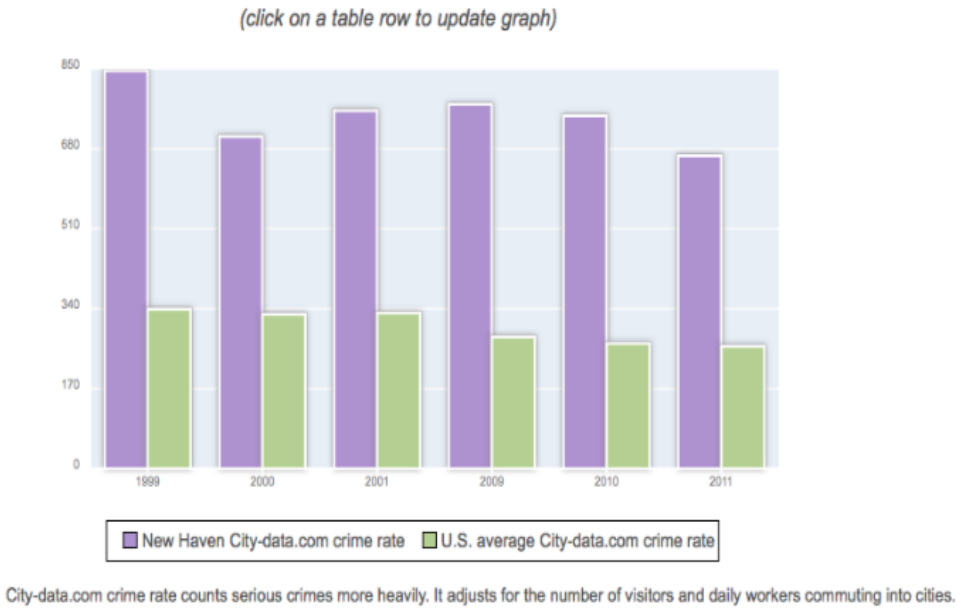


Figure 1.2: I-91 Artificial Loop Construction

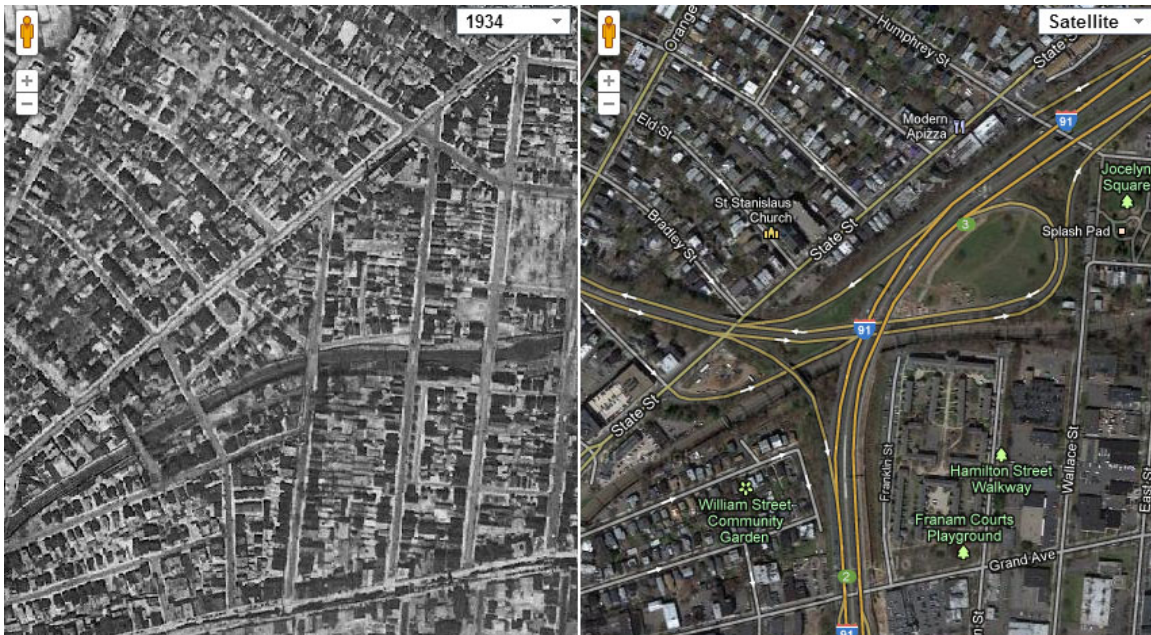




Figure 1.3: East Rock and Westville



East Rock



Westville



Figure 1.4: Farnham Courts

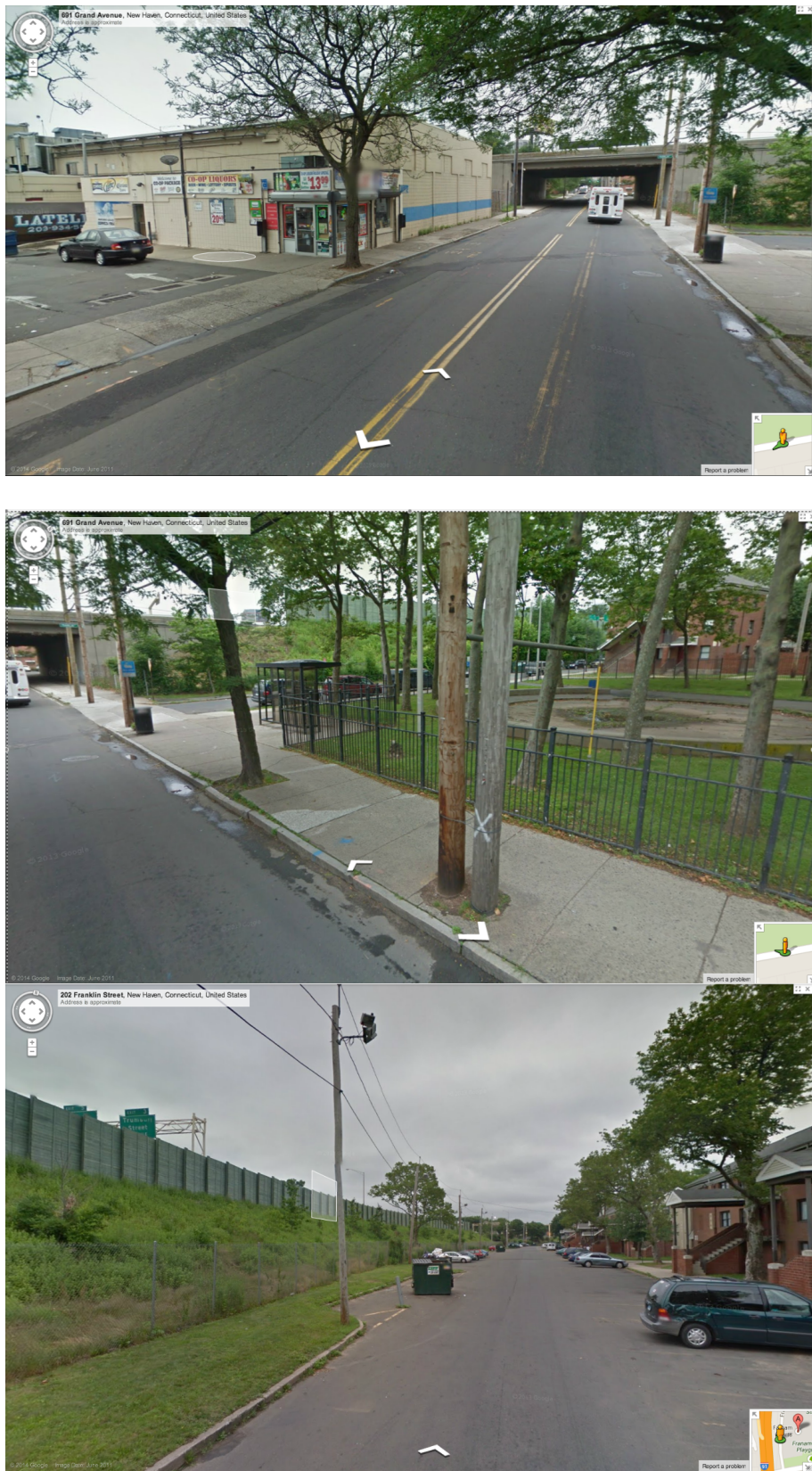




Figure 1.5: Wooster Square



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